SPROTT

# Annual Report

2016

Exchange Listed Products | Alternative Asset Management | Private Resource Investments

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SPROTT

March 1, 2017

Dear Shareholders,

During 2016, Sprott delivered improved financial results as our Assets Under Management ("AUM") grew by nearly $2 billion and our adjusted base EBITDA increased to $0.10 per share from $0.07 per share in 2015.

The key drivers of our improved results were the growth of our exchange listed products franchise and the performance of our actively managed precious metals and alternative credit strategies which, together, drove the majority of the $21.4 million in gross performance fees earned by the company during the year. We also benefited from strong performance from our proprietary investments, which contributed nearly $28 million in gains during 2016.

Our outlook for precious metals remains positive. After a correction during the fourth quarter of 2016, gold and silver prices still posted yearly gains of 8% and 15%, respectively, and both metals have resumed their upward trajectory in the early part of 2017. We continue to feel that government debt and entitlement levels globally cannot be sustained by the productive output of the underlying economies, and that some form of market turmoil or correction will be the inevitable conclusion. With this backdrop, we are seeing interest by large investors in increasing their allocations to hard assets in general, and precious metals specifically, and we aspire to grow our business accordingly.

The asset management industry is going through a period of transformation as it adjusts to a changing regulatory landscape, pressure to reduce fees and the continuing reallocation of investors' assets from actively managed to passive products. We are confident that we can continue to meet our clients' needs in this environment by focusing on value-added investment strategies where we have a proven expertise and sustainable competitive advantages.

We have started 2017 on positive footing with the Sprott Private Resource Lending LP receiving additional commitments, while the Sprott Energy Opportunities Trust, the Sprott 2017 Flow-Through Limited Partnership and Sprott Resource Holdings Inc. all completed successful raises.

As we look to drive our future growth and profitability, we have expanded our sales and client relationship capabilities in the US, where we will continue to grow our exchange listed strategies by building on our base of more than 100,000 predominantly US domiciled clients.

Our balance sheet remains strong with more than $300 million in investable capital and we will continue to evaluate opportunities to use our financial strength to develop scale in core areas through acquisitions.

We have made good progress in reducing our SG&A expense ratio and we believe we can drive further efficiencies in this area.

Finally, on behalf of our employees and board of directors, I would like to welcome our newest board member Ron Dewhurst who joined the board in January. Ron is a seasoned asset management executive with global experience in both retail and institutional channels and we look forward to his contributions to the board.

Thank you for your continued support. We look forward to reporting to you on our progress throughout 2017.

Sincerely,

Peter Grosskopf
Chief Executive Officer

*Management's Discussion and Analysis*

Year ended December 31, 2016

SPROTT

## FORWARD LOOKING STATEMENTS

Certain statements in this Management's Discussion & Analysis ("MD&A"), and in particular the "Business Highlights and Growth Initiatives" and "Outlook" sections, contain forward-looking information (collectively referred to herein as the "Forward-Looking Statements") within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify Forward-Looking Statements. In particular, but without limiting the forgoing, this MD&A contains Forward-Looking Statements pertaining to: (i) Sprott Inc.'s (the "Company", "we", "us", "our") outlook for precious metals and expectation that our gold and silver-related investment strategies will be strong contributors in 2017; (ii) our belief that we are well positioned to meet our clients' needs in the changing regulatory environment; (iii) our commitment to growing our exchange listed offerings, while also building scale in alternative active strategies, where we believe we have a strategic and competitive advantage; (iv) our belief that the new long-term incentive compensation plan will better align executive compensation and incentives to that of our shareholders going forward; (v) our belief that management fees and interest income will continue to be sufficient to satisfy ongoing operating needs and the Company's belief that it holds sufficient cash and liquid securities to meet any other operating and capital requirements; and (vi) the declaration, payment and designation of dividends.

Although the Company believes that the Forward-Looking Statements are reasonable, they are not guarantees of future results, performance or achievements. A number of factors or assumptions have been used to develop the Forward-Looking Statements, including: (i) the impact of increasing competition in each business in which the Company operates will not be material; (ii) quality management will be available; (iii) the effects of regulation and tax laws of governmental agencies will be consistent with the current environment; and (iv) those assumptions disclosed herein under the heading "Significant Accounting Judgments and Estimates". Actual results, performance or achievements could vary materially from those expressed or implied by the Forward-Looking Statements should assumptions underlying the Forward-Looking Statements prove incorrect or should one or more risks or other factors materialize, including: (i) difficult market conditions; (ii) poor investment performance; (iii) performance fee fluctuations; (iv) changes in the investment management industry; (v) risks related to regulatory compliance; (vi) failure to deal appropriately with conflicts of interest; (vii) failure to continue to retain and attract quality staff; (viii) competitive pressures; (ix) corporate growth may be difficult to sustain and may place significant demands on existing administrative, operational and financial resources; (x) failure to execute the Company's succession plan; (xi) foreign exchange risk relating to the relative value of the U.S. dollar; (xii) litigation risk; (xiii) employee errors or misconduct could result in regulatory sanctions or reputational harm; (xiv) failure to implement effective information security policies, procedures and capabilities; (xv) failure to develop effective business resiliency plans; (xvi) failure to obtain or maintain sufficient insurance coverage on favourable economic terms; (xvii) historical financial information is not necessarily indicative of future performance; (xviii) the market price of common shares of the Company may fluctuate widely and rapidly; (xix) risks relating to the Company's proprietary investments; (xx) risks relating to the Company's lending business; (xxi) those risks described under the heading "Risk Factors" in the Company's annual information form dated March 1, 2017; and (xxii) those risks described under the headings "Managing Risk: Financial" and "Managing Risk: Non-Financial" in this MD&A. In addition, the payment of dividends is not guaranteed and the amount and timing of any dividends payable by the Company will be at the discretion of the Board of Directors of the Company and will be established on the basis of the Company's earnings, the satisfaction of solvency tests imposed by applicable corporate law for the declaration and payment of dividends, and other relevant factors. The Forward-Looking Statements speak only as of the date hereof, unless otherwise specifically noted, and the Company does not assume any obligation to publicly update any Forward-Looking Statements, whether as a result of new information, future events or otherwise, except as may be expressly required by applicable Canadian securities laws.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A of financial condition and results of operations, dated March 1, 2017, presents an analysis of the consolidated financial condition of the Company and its subsidiaries as at December 31, 2016, compared with December 31, 2015, and the consolidated results of operations for the three and twelve months ended December 31, 2016, compared with the three and twelve months ended December 31, 2015. The Board of Directors approved this MD&A on March 1, 2017. All note references in this MD&A are to the notes to the Company's December 31, 2016 annual audited consolidated financial statements ("annual financial statements"), unless otherwise noted. The Company was incorporated under the Business Corporations Act (*Ontario*) on February 13, 2008.

## PRESENTATION OF FINANCIAL INFORMATION

The annual financial statements, including the required comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Financial results, including related historical comparatives contained in this MD&A, unless otherwise specified herein, are based on the annual financial statements. The Canadian dollar is the Company's functional and reporting currency for purposes of preparing the annual financial statements given that the Company conducts most of its operations in that currency. Accordingly, all dollar references in this MD&A are in Canadian dollars, unless otherwise specified. The use of the term "prior periods" refers to the quarter and year ended December 31, 2015 as applicable.

## KEY PERFORMANCE INDICATORS (NON-IFRS FINANCIAL MEASURES)

The Company measures the success of its business using a number of key performance indicators that are not measurements in accordance with IFRS and should not be considered as an alternative to net income (loss) or any other measure of performance under IFRS. Non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Our key performance indicators include:

*Assets Under Management*

Assets Under Management ("AUM") refers to the total net assets managed by the Company through its various investment product offerings, managed accounts and managed companies.

*Assets Under Administration*

Assets Under Administration ("AUA") refers to assets administered by us, which are beneficially owned by clients in the form of client accounts at broker-dealer subsidiaries of the Company.

*Investment Performance*

Investment performance is a key driver of AUM. Growth in AUM resulting from positive investment performance increases the value of the assets managed for clients and the Company, in turn, benefits from higher management fees and the potential for performance fees.

*Net Sales*

Sales, net of redemptions, is another key performance indicator as the amount of new assets being added to the total AUM of the Company will lead to higher management fees and can potentially lead to increased performance fee generation given that AUM is also the basis upon which performance fees and carried interests are calculated.

*Selling, general and administrative ("SG&A") Expense Ratio*

The SG&A Expense Ratio refers to total SG&A expenses as a percentage of adjusted base EBITDA relevant net revenues. The Company uses this ratio to monitor and manage the impact of SG&A on adjusted base EBITDA. Relevant net revenues include all net revenue items with the exception of: (1) gains (losses) on proprietary investments; (2) gains (losses) on foreign exchange; (3) performance fees, net of performance fees paid to sub-advisors; and (4) income from energy assets.

*EBITDA, Adjusted EBITDA and Adjusted base EBITDA*

EBITDA in its most basic form is defined as earnings before interest expense, income taxes, depreciation and amortization. EBITDA is a measure commonly used in the investment industry by management, investors and investment analysts in understanding and comparing results by factoring out the impact of different financing methods, capital structures, amortization techniques and income tax rates between companies in the same industry. While other companies, investors or investment analysts may not utilize the same method of calculating EBITDA (or adjustments thereto), the Company believes its adjusted base EBITDA metric, in particular, results in a better comparison of the Company's underlying operations against its peers.

Neither EBITDA, adjusted EBITDA or adjusted base EBITDA have standardized meaning under IFRS. Consequently, they should not be considered in isolation, nor should they be used in substitute for measures of performance prepared in accordance with IFRS.

The following table outlines how our EBITDA measures are determined:

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| ($ in thousands) | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| **Net income (loss) for the periods** | 754 | (4,104) | 31,538 | (39,631) |
| Adjustments: | | | | |
| Interest expense | 5 | — | 5 | 84 |
| Provision for income taxes | 775 | (1,209) | 6,305 | 8,653 |
| Depreciation and amortization | 1,836 | 1,602 | 7,421 | 6,396 |
| **EBITDA** | 3,370 | (3,711) | 45,269 | (24,498) |
| Other adjustments: | | | | |
| Impairment (reversal) of intangibles | — | — | 3,006 | 12,073 |
| Impairment of goodwill | — | 3,204 | — | 31,709 |
| (Gains) losses on proprietary investments | 8,030 | 1,128 | (27,894) | 9,820 |
| General loan loss provisions (recoveries) [1] | (1,200) | 1,200 | (1,200) | 1,200 |
| (Gains) losses on foreign exchange [2] | (2,095) | (3,405) | 3,498 | (17,020) |
| Non-cash and non-recurring stock-based compensation | 850 | 372 | 3,589 | (674) |
| Other [3] | 2,492 | 3,317 | 5,378 | 6,399 |
| **Adjusted EBITDA** | 11,447 | 2,105 | 31,646 | 19,009 |
| Other adjustments: | | | | |
| Performance fees | (19,935) | (8,703) | (21,407) | (8,925) |
| Performance fee related expenses | 13,203 | 6,393 | 13,821 | 6,478 |
| **Adjusted base EBITDA** | 4,715 | (205) | 24,060 | 16,562 |

[1] Adjusted base EBITDA includes specific loan loss provisions of $0.3 million on a three months ended basis (three months ended 2015 - $4.2 million) and $0.9 million on a twelve months ended basis (twelve months ended 2015 - $8.0 million).

[2] (Gains) losses on foreign exchange include translation gains and losses relating to U.S. dollar denominated cash, receivables and loan balances.

[3] Other category includes transition expenses paid during the period. Transition expenses were $0.3 million on a three months ended basis (three months ended 2015 - $1.1 million) and $0.5 million on a twelve months ended basis (twelve months ended 2015 - $1.6 million). Effective June 30, 2016, the Company began incurring upfront placement fees in the Lending segment. These fees are amortized for EBITDA recognition purposes over the future benefits period. This is contrary to our treatment on the statements of operation prepared using the principles of IFRS (specifically IAS 18). Management believes this IFRS departure is necessary to: (1) more accurately reflect the economics of arrangements with placement agents, consultants, and key employees tasked with asset accumulation; and (2) to ensure that future comparative periods post-IFRS 15 transition in 2018 are reported on a consistent basis with that impending new standard.

## BUSINESS OVERVIEW

We operate through three primary lines of business:

(1) Exchange Listed Products

(2) Alternative Asset Management

(3) Private Resource Investments

### Exchange Listed Products

- This business platform houses the Company's closed-end physical trusts and exchange traded funds ("ETFs"), both of which are actively traded on public securities exchanges. Sprott Asset Management LP ("SAM") is both the principal subsidiary and reportable segment through which these products are managed and distributed.

### Alternative Asset Management

- This business platform houses the Company's full suite of public mutual funds, alternative investment strategies and managed accounts. In addition to the management and distribution of exchange listed products noted above, SAM also manages this diversified products suite.

### Private Resource Investments

- This business platform houses the Company's private resource-focused asset management activities. Primary activities include the management of: (1) U.S.-based fixed-term limited partnership vehicles, discretionary managed accounts and private placement activities; (2) direct and indirect resource lending activities via the Company's balance sheet and through limited partnership structures; and (3) private equity style and direct asset investments through managed companies. Specific reportable segments and principal subsidiaries in this line of business are highlighted below:

  *Global:*

  - Resource Capital Investment Corporation ("RCIC")
  - Sprott Asset Management USA Inc. ("SAM US")
  - Sprott Global Resource Investments Ltd. ("SGRIL")

  *Lending:*

  - Sprott Resource Lending Corp. ("SRLC")

  *Consulting:*

  - Sprott Consulting LP ("SC"), manager of Sprott Resource Corp. ("SRC")
  - Toscana Energy Corporation ("TEC"); Toscana Capital Corporation ("TCC") (collectively, "Sprott Toscana")
  - Sprott Korea Corporation ("Sprott Korea")

For a detailed account of the underlying principal subsidiaries within our primary lines of business (as well as our corporate segment) refer to the Company's Annual Information Form and Note 2 of the annual financial statements.

## BUSINESS HIGHLIGHTS AND GROWTH INITIATIVES

*Investment Performance*

Strong precious metals pricing led to good market value appreciation across most of our funds until the fourth quarter when precious metals prices began to soften. We experienced $0.8 billion in market value depreciation in the quarter but finished the year with $0.7 billion in total market value gains.

*Product and Business Line Expansion*

Subsequent to the year end, SAM completed the closing of the Sprott 2017 Flow-Through Limited Partnership by issuing 2 million units for gross proceeds of $50 million.

During the quarter, SAM completed the initial public offering of the Sprott Energy Opportunities Trust by issuing 4.6 million units for gross proceeds of $46.2 million. Additionally, SAM completed the closing of the Sprott 2016 - II Flow-Through Limited Partnership by issuing 1 million units for gross proceeds of $25 million.

During the second quarter SAM together with Sprott Physical Silver Trust ("PSLV"), completed a follow-on offering of 14.1 million units for gross proceeds of $108 million. Additionally, the Company closed on private resource lending funds ("Private Resource Lending LPs"), raising $370 million in fund commitments through to December 31, 2016.

During the first quarter, SAM together with Sprott Physical GoldTrust ("PHYS"), successfully completed its exchange offer to acquire all of the outstanding units of the Central GoldTrust ("GTU") on a Net Asset Value ("NAV") to NAV exchange basis. At the time of closing, the transaction added $1.1 billion to our total AUM and provided access to 20,000 new clients based largely in the U.S.

## OUTLOOK

Despite weaker prices during the fourth quarter of 2016, precious metals performed well in fiscal 2016 with gold and silver delivering one-year returns of approximately 8% and 15%, respectively. Our outlook for precious metals investments remains positive and we expect our gold and silver-related investment strategies to be strong contributors once again in 2017. The asset management industry is going through a period of change as it adjusts to a changing regulatory environment and the continuing reallocation of investors' assets from conventionally managed products to alternative and passive investment strategies. We believe we are well positioned to meet our clients' needs in this shifting landscape and we are committed to growing our exchange listed offerings, while also building scale in alternative active strategies where we believe we have a strategic and competitive advantage.

## SUMMARY FINANCIAL INFORMATION

| ($ in thousands) | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 |
|---|---|---|---|---|---|---|---|---|
| **SUMMARY INCOME STATEMENT** | | | | | | | | |
| Management fees | 21,895 | 22,586 | 20,524 | 19,315 | 18,504 | 18,776 | 19,492 | 18,563 |
| Performance fees | 19,935 | 239 | 1,146 | 87 | 8,703 | 94 | 1 | 127 |
| less: Trailer fees | 3,110 | 3,325 | 3,167 | 3,016 | 3,060 | 3,222 | 3,163 | 3,133 |
| less: Sub-advisor fees | 10,552 | 1,233 | 1,107 | 999 | 6,234 | 934 | 876 | 776 |
| Net Fees | 28,168 | 18,267 | 17,396 | 15,387 | 17,913 | 14,714 | 15,454 | 14,781 |
| Commissions | 2,959 | 5,265 | 4,478 | 1,133 | 1,515 | 1,940 | 1,478 | 2,075 |
| Interest income | 3,636 | 2,824 | 3,900 | 3,950 | 4,122 | 3,953 | 3,807 | 6,832 |
| Gains (losses) on proprietary investments | (8,030) | 6,809 | 17,629 | 11,486 | (1,128) | (9,399) | 3,450 | (2,742) |
| Other income (loss) | 4,805 | 3,658 | 1,250 | (4,292) | 6,075 | 10,955 | 250 | 8,565 |
| **Total Net Revenues** | 31,538 | 36,823 | 44,653 | 27,664 | 28,497 | 22,163 | 24,439 | 29,511 |
| Compensation | 17,547 | 10,689 | 11,707 | 9,231 | 11,774 | 7,886 | 7,560 | 10,882 |
| Stock-based compensation | 1,759 | 1,388 | 1,382 | 1,858 | 770 | 773 | 186 | 247 |
| Placement and referral fees | 2,169 | 497 | 1,717 | 145 | 177 | 193 | 16 | 27 |
| Selling, general and administrative | 6,949 | 7,386 | 7,887 | 7,263 | 7,855 | 7,371 | 6,004 | 5,806 |
| Loan loss provisions (recoveries) | (911) | 114 | 346 | 192 | 5,351 | 3,866 | (131) | 132 |
| Amortization and impairment charges | 1,836 | 1,844 | 1,844 | 4,903 | 4,806 | 41,615 | 1,582 | 2,175 |
| Other expenses | 660 | 502 | (284) | 2,215 | 3,077 | 3,209 | 882 | 1,497 |
| **Total Expenses** | 30,009 | 22,420 | 24,599 | 25,807 | 33,810 | 64,913 | 16,099 | 20,766 |
| SG&A Expense Ratio | 26% | 27% | 30% | 32% | 36% | 33% | 28% | 24% |
| **Net Income (Loss)** | 754 | 12,531 | 16,946 | 1,307 | (4,104) | (49,190) | 6,726 | 6,937 |
| Net Income (Loss) per share (basic & diluted) | 0.00 | 0.05 | 0.07 | 0.01 | (0.02) | (0.20) | 0.03 | 0.03 |
| **Adjusted base EBITDA** | 4,715 | 8,431 | 5,753 | 5,161 | (205) | 2,454 | 7,136 | 7,177 |
| Adjusted base EBITDA per share (basic & diluted) | 0.02 | 0.03 | 0.02 | 0.02 | 0.00 | 0.01 | 0.02 | 0.03 |
| **SUMMARY BALANCE SHEET** | | | | | | | | |
| Total Assets | 440,024 | 431,149 | 428,209 | 412,547 | 433,876 | 439,637 | 497,818 | 453,895 |
| Total Liabilities | 79,710 | 66,336 | 67,059 | 61,987 | 75,634 | 69,222 | 74,537 | 27,739 |
| Cash | 123,955 | 100,704 | 111,252 | 92,496 | 107,622 | 124,093 | 145,366 | 119,646 |
| less: syndicate cash holdings | (394) | (651) | (2,675) | (1,093) | (459) | (1,097) | (4,411) | (1,893) |
| Net cash | 123,561 | 100,053 | 108,577 | 91,403 | 107,163 | 122,996 | 140,955 | 117,753 |
| Proprietary investments | 147,545 | 166,126 | 152,059 | 133,603 | 136,809 | 139,634 | 134,849 | 94,902 |
| less: obligations related to securities sold short | (29,810) | (36,782) | (38,641) | (31,653) | (40,191) | (42,992) | (37,944) | (10,792) |
| Net proprietary investments | 117,735 | 129,344 | 113,418 | 101,950 | 96,618 | 96,642 | 96,905 | 84,110 |
| Loans receivable * | 67,678 | 82,470 | 81,638 | 101,253 | 100,802 | 89,035 | 89,279 | 109,433 |
| **Investable Capital** | 308,974 | 311,867 | 303,633 | 294,606 | 304,583 | 308,673 | 327,139 | 311,296 |
| **ASSETS UNDER MANAGEMENT** | | | | | | | | |
| Exchange Listed Products | 4,411,640 | 4,943,224 | 4,829,986 | 4,169,716 | 2,958,779 | 3,076,458 | 3,195,543 | 3,392,087 |
| Alternative Asset Management | 3,653,851 | 3,937,898 | 3,816,298 | 3,476,701 | 3,328,220 | 3,202,390 | 3,378,695 | 3,226,247 |
| Private Resource Investments | 1,182,492 | 1,207,598 | 1,154,718 | 1,153,099 | 1,139,030 | 1,155,249 | 1,226,548 | 1,199,055 |
| **Total Enterprise AUM** | 9,247,983 | 10,088,720 | 9,801,002 | 8,799,516 | 7,426,029 | 7,434,097 | 7,800,786 | 7,817,389 |

* In prior periods, the loan receivable balances included a long-term receivable recorded in other assets for Investable Capital calculation and reporting purposes. This item is now excluded to better align with the on-balance sheet presentation. The balances were not material.

## FINANCIAL HIGHLIGHTS

*For the three and twelve months ended December 31, 2016*

- AUM was $9.2 billion, reflecting a decrease of $0.8 billion (8%) from September 30, 2016 and an increase of $1.8 billion (25%) from December 31, 2015. The decrease in AUM quarter-over-quarter was due to market value depreciation commensurate with the decline in precious metals prices in the fourth quarter. The increase in AUM on a twelve months ended basis was due to a combination of the closure of the Central GoldTrust ("GTU") exchange offer in the first quarter, a follow on offering of PSLV units in the second quarter and strong market value appreciation on a full year basis given strong precious metals prices during the first nine months of the year. Average AUM on a three and twelve months ended basis was $9.7 billion and $9.4 billion, respectively, which increased $2.2 billion (29%) and $1.7 billion (21%), respectively, from the prior periods.
- AUA was $2.6 billion, reflecting a decrease of $0.3 billion (10%) from September 30, 2016 and an increase of $0.6 billion (30%) from December 31, 2015. The decrease on a three months ended basis and increase on the twelve months ended basis was due to the market value variances noted above.
- Total net revenues were $31.5 million on a three months ended basis and $140.7 million on a twelve months ended basis, reflecting an increase of $3.0 million (11%) and $36.1 million (35%), respectively, from the prior periods.
- Total expenses (excluding trailer fees and sub-advisor fees) were $30.0 million on a three months ended basis and $102.8 million on a twelve months ended basis, reflecting a decrease of $3.8 million (11%) and $32.7 million (24%), respectively, from the prior periods.
- Net income was $0.8 million ($0.00 per share) on a three months ended basis and $31.5 million ($0.13 per share) on a twelve months ended basis, reflecting an increase of $4.9 million and $71.2 million, respectively, from the prior periods.
- Adjusted base EBITDA was $4.7 million ($0.02 per share) on a three months ended basis and $24.1 million ($0.10 per share) on a twelve months ended basis reflecting an increase of $4.9 million and $7.5 million, respectively, from the prior periods.
- Investable capital stood at $309.0 million, reflecting a decrease of $2.9 million from September 30, 2016 and an increase of $4.4 million from December 31, 2015.

## RESULTS OF OPERATIONS

*For the three and twelve months ended December 31, 2016*

**Assets Under Management, Investment Performance and Net Sales**

Breakdown of AUM by investment product type:

| Product Type | Dec. 31, 2016 $ (in millions) | Dec. 31, 2016 % AUM | Dec. 31, 2015 $ (in millions) | Dec. 31, 2015 % AUM |
|---|---|---|---|---|
| **Exchange Listed Products** (1) | 4,412 | 48% | 2,959 | 40% |
| **Alternative Asset Management:** | | | | |
| Mutual Funds (1) | 2,465 | 27% | 2,400 | 32% |
| Alternative Investment Funds | 1,085 | 11% | 892 | 12% |
| Managed Accounts | 104 | 1% | 35 | 1% |
| **Private Resource Investments:** | | | | |
| Private Resource Lending Funds | 49 | 1% | — | — |
| Fixed-term limited partnerships | 343 | 4% | 335 | 5% |
| Managed Companies | 653 | 7% | 701 | 9% |
| Managed Accounts | 137 | 1% | 104 | 1% |
| **Total Enterprise AUM** | 9,248 | 100% | 7,426 | 100% |

Breakdown of AUM movements on a quarter-to-date basis by investment product type:

| $ (in millions) | AUM Sep. 30, 2016 | Net Sales / (Redemptions) | Net Market Value Change | Transfers / Acquisitions / (Divestitures) | AUM Dec. 31, 2016 |
|---|---|---|---|---|---|
| **Exchange Listed Products** (1) | 4,943 | 47 | (616) | 38 | 4,412 |
| **Alternative Asset Management:** | | | | | |
| Mutual Funds (1) | 2,674 | (67) | (104) | (38) | 2,465 |
| Alternative Investment Funds | 1,173 | (49) | (39) | — | 1,085 |
| Managed Accounts | 91 | 25 | (12) | — | 104 |
| **Private Resource Investments:** | | | | | |
| Private Resource Lending Funds | — | 49 | — | — | 49 |
| Fixed Term Limited Partnerships | 383 | — | (40) | — | 343 |
| Managed Companies | 681 | — | (28) | — | 653 |
| Managed Accounts | 144 | — | (7) | — | 137 |
| **Total Enterprise AUM** | 10,089 | 5 | (846) | — | 9,248 |

Breakdown of AUM movements on a year-to-date basis by investment product type:

| $ (in millions) | AUM Dec. 31, 2015 | Net Sales / (Redemptions) | Net Market Value Change | Transfers / Acquisitions / (Divestitures) | AUM Dec. 31, 2016 |
|---|---|---|---|---|---|
| **Exchange Listed Products** (1) | 2,959 | 70 | 273 | 1,110 | 4,412 |
| **Alternative Asset Management:** | | | | | |
| Mutual Funds (1) | 2,400 | (126) | 229 | (38) | 2,465 |
| Alternative Investment Funds | 892 | 38 | 155 | — | 1,085 |
| Managed Accounts | 35 | 56 | 13 | — | 104 |
| **Private Resource Investments:** | | | | | |
| Private Resource Lending Funds | — | 49 | — | — | 49 |
| Fixed Term Limited Partnerships | 335 | — | 8 | — | 343 |
| Managed Companies | 701 | — | (48) | — | 653 |
| Managed Accounts | 104 | — | 33 | — | 137 |
| **Total Enterprise AUM** | 7,426 | 87 | 663 | 1,072 | 9,248 |

(1) Prior to 2016, the "Bullion Funds" category combined Physical Trusts as well as Bullion Mutual Funds. Bullion Mutual Funds are now part of the "Mutual Funds" category while the Physical Trusts have been combined with ETFs as part of the "Exchange Listed Products" category. Prior periods have been restated accordingly.

**Revenues**

Management fees net of trailers and sub-advisor fees were $17.7 million on a three months ended basis and $67.5 million on a twelve months ended basis, reflecting an increase of $3.3 million (23%) and $8.3 million (14%), respectively, from the prior periods. The increase was largely due to an increase in the average AUM of our exchange listed products and resource focused funds. However, we also experienced good AUM growth in our alternative credit products. Gross management fees as a percentage of average AUM were 1% on a three and twelve months ended basis, largely unchanged from the prior periods.

Gross performance fees were $19.9 million on a three months ended basis and $21.4 million on a twelve months ended basis, reflecting an increase of $11.2 million and $12.5 million, respectively from the prior periods. Gross performance fees were primarily generated in our resource and credit focused funds in the alternative asset management platform.

Commission revenues were $3.0 million on a three months ended basis and $13.8 million on a twelve months ended basis, reflecting an increase of $1.4 million and $6.8 million, respectively, from the prior periods. The increase was due to improved client trading and private placement activity, mostly in SGRIL and to a lesser extent in Sprott Private Wealth ("SPW").

Interest income was $3.6 million on a three months ended basis and $14.3 million on a twelve months ended basis, reflecting a decrease of $0.5 million (12%) and $4.4 million (24%), respectively, from the prior periods. The decrease was due to lower average loan balances in our Lending segment as we continue our effort to wind down on-balance sheet lending and build scale in our private resource lending funds.

Returns on proprietary investments were negative $8.0 million on a three months ended basis and $27.9 million on a twelve months ended basis, reflecting a decrease of $6.9 million and an increase of $37.7 million, respectively, from the prior periods. Losses in the quarter were due to market value depreciation in our precious metals focused seeded fund and equity holdings. The gains on a twelve months ended basis were due to the strong market value appreciation we encountered in the first nine months of the year that was only partially offset by the softer fourth quarter environment for precious metals prices.

Other income was $4.8 million on a three months ended basis and $5.4 million on a twelve months ended basis, reflecting a decrease of $1.3 million (21%) and $20.4 million (79%), respectively, from the prior periods. The decrease on a three and twelve months ended basis was largely due to reduced foreign exchange gains (in the quarter) and foreign exchange losses (on a year-to-date basis) compared to material foreign exchange gains last year.

## Expenses

Changes in specific expense categories are described below:

*Compensation*

The table below summarizes the components of compensation:

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| ($ in thousands) | 2016 | 2015 | 2016 | 2015 |
| Salaries | 7,700 | 6,396 | 29,412 | 23,860 |
| Discretionary bonus-cash component | 7,257 | 2,411 | 12,996 | 7,608 |
| Commissions | 2,087 | 1,488 | 5,491 | 4,059 |
| Director's fees | 220 | 396 | 799 | 960 |
| Transition expenses | 283 | 1,083 | 476 | 1,615 |
| Compensation (1) | 17,547 | 11,774 | 49,174 | 38,102 |

(1) Discretionary bonus-equity of $1.2 million on a three months ended basis (December 31, 2015 - $0.4 million) and $3.0 million on a twelve months ended (December 31, 2015 - $2.6 million) is included as part of stock-based compensation on the consolidated statements of operations.

Total reported compensation was $17.5 million on a three months ended basis and $49.2 million on a twelve months ended basis, reflecting an increase of $5.8 million (49%) and $11.1 million (29%), respectively, from the prior periods. A significant portion of the increase was due to higher salaries in the alternative asset management business as that platform added more headcount during the year. Other contributors to the increase included: (1) higher bonus accruals on higher EBITDA and performance fee generation; and (2) higher commissions expense on improved client trading and private placement activity, primarily in SGRIL.

*Stock-based compensation*

Reported stock-based compensation was $1.8 million on a three months ended basis and $6.4 million on a twelve months ended basis, reflecting an increase of $1.0 million and $4.4 million, respectively, from the prior periods. The increase was largely due to the amortization of stock-based compensation attributable to our new long-term incentive compensation plan adopted in the first quarter of this year. The new plan includes a transition to long-term executive compensation through the use of time and performance-based stock options. We believe this will better align executive compensation and incentives to that of our shareholders going forward.

*Placement and referral fees*

Placement and referral fees (previously included in "other expenses" in the second quarter of this year) were $2.2 million on a three months ended basis and $4.5 million on a twelve months ended basis, reflecting an increase of $2.0 million and $4.1 million, respectively, from the prior periods. The increase was mainly due to ongoing placement fees pertaining to the start-up of our new private resource lending funds earlier in the year.

*Loan loss provisions (recoveries)*

In the prior year, the Company had specific and general loan loss provisions of $8.0 million and $1.2 million, respectively. During the quarter, the Company completed its quarterly assessment of credit risk in the portfolio. This led to the decision to reverse the $1.2 million general loan loss provision. The Company also wrote off a prior period loan we had a specific provision against in order to permanently remove it from our balance sheet. There were no credit loss events to provide for in fiscal 2016, however, given the IFRS requirement to continue accruing non-cash interest on previously impaired loans via the effective interest rate method of accounting, the Company was required to accrue such interest and then take a corresponding specific loan loss provision against the accrued interest amount (the $0.8 million figure in the table below).

| ($ in thousands) | General Loan Loss Provision | Specific Loan loss provision | Total |
|---|---|---|---|
| At December 31, 2015 | 1,200 | 8,017 | 9,217 |
| Recovery of general loan loss provision | (1,200) | — | (1,200) |
| Loan write-off | — | (3,866) | (3,866) |
| Deferred Fees (net of FX) | — | 842 | 842 |
| At December 31, 2016 | — | 4,993 | 4,993 |

*Selling, general and administrative*

SG&A expenses were $6.9 million on a three months ended basis and $29.5 million on a twelve months ended basis, reflecting a decrease of $0.9 million (12%) on a three months ended basis and an increase of $2.4 million (9%) on a twelve months ended basis. During the quarter we benefited from lower fund operating expenses ("fund opex"), professional fees, marketing and sales expenses as we continued to see the benefits of our ongoing cost containment program. On a year-to-date basis, our cost containment efforts helped to partially offset the higher investment spend in fund opex, marketing and sales incurred earlier in the year in the alternative asset management business.

*Amortization of intangibles*

Amortization of intangibles was $1.6 million on a three months ended basis and $6.5 million on a twelve months ended basis, reflecting an increase of $0.2 million (17%) and $1.0 million (17%), respectively, from the prior periods. The increase was mainly due to a change in accounting estimate during the first quarter of this year involving certain exchange listed products (physical trusts) previously classified as indefinite life intangibles, which are now being accounted for as finite life intangibles and amortized over their estimated remaining useful life.

*Impairment of goodwill and intangibles*

The table below provides a break-down of impairment charges incurred:

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| ($ in thousands) | 2016 | 2015 | 2016 | 2015 |
| Goodwill impairment | — | 3,204 | — | 31,709 |
| Carried interest impairment | — | — | — | 2,333 |
| Finite life management contract impairment | — | — | — | 398 |
| Indefinite life management contract impairment* | — | — | 3,006 | 9,342 |
| Impairment of goodwill and intangibles | — | 3,204 | 3,006 | 43,782 |

*See Note 5 of the annual financial statements for further details.

*Amortization of property and equipment*

Amortization of property and equipment was $0.2 million on a three months ended basis and $0.9 million on a twelve months ended basis, which remained largely unchanged from the prior periods.

*Other expenses*

Other expenses (excluding placement and referral fees, which are now presented on a separate "Placement and referral fees" line on the consolidated statements of operations) were $0.7 million on a three months ended basis and $3.1 million on a twelve months ended basis, reflecting a decrease of $2.4 million (79%) and $5.6 million (64%), respectively, from the prior periods. The decrease was largely due to lower operating expenses and depletion charges incurred in certain seeded energy assets held as part of the proprietary investment holdings of our private resource investments business.

## Net Income and Adjusted base EBITDA

Net income was $0.8 million on a three months ended basis and $31.5 million on a twelve months ended basis, reflecting an increase of $4.9 million and $71.2 million from the prior periods.

On a three months ended basis (excluding last year's impairment charges and provisions on goodwill and intangible assets), higher net income was mainly due to: (1) higher net management and performance fees; (2) higher commissions; and (3) lower loan loss provisions. These increases were only partially offset by higher losses on proprietary investments, higher compensation expense and lower foreign exchange gains in the quarter. Our twelve months ended results were impacted in a similar way, however, higher gains on proprietary investments increased net income and was only partially offset by foreign exchange losses.

Adjusted base EBITDA was $4.7 million on a three months ended basis and $24.1 million on a twelve months ended basis, reflecting an increase of $4.9 million and $7.5 million, respectively, from the prior periods. Higher Adjusted base EBITDA in the quarter was due to improved net management fees and commission income coupled with lower SG&A and lower specific loan loss provisions, which more than offset lower interest income and higher compensation expense. Our twelve months ended results were impacted in a similar way, however, the year-over-year increase in Adjusted base EBITDA was partially reduced by SG&A spend incurred earlier in the year in our alternative asset management platform.

## Balance Sheet

Cash and cash equivalents were $124.0 million, an increase of $16.3 million (15%) from December 31, 2015. The increase was primarily due to net loan repayments and the sale of proprietary investments. These increases more than offset dividend payments during the year.

Fees receivable were $26.1 million, reflecting an increase of $12.5 million (93%) from December 31, 2015. The increase was primarily due to the timing of year-end management and performance fee receipts.

Loans receivable (both current and long-term) were $67.7 million, reflecting a decrease of $33.1 million (33%) from December 31, 2015. The decrease was due to our continued efforts to wind down our on-balance sheet lending and build scale in our new private resource lending funds.

Proprietary investments were $147.5 million, reflecting an increase of $10.7 million (8%) from December 31, 2015. The increase was mainly due to strong market value appreciation of our seeded fund and equity holdings, which more than offset the sale of investments during the year.

Obligations related to securities sold short were $29.8 million, reflecting a decrease of $10.4 million (26%) from December 31, 2015. The Company is currently holding $29.7 million (December 31, 2015 - $38.5 million) of investment strategies that are economically offset by these short positions.

Other assets (both current and long-term) were $12.9 million, reflecting a decrease of $11.3 million (47%) from December 31, 2015. The decrease was primarily due to the first quarter reclassification of $11 million in deferred transaction costs related to the GTU exchange offer to finite life intangible assets after the successful completion of the offer (see Note 7 of the annual financial statements).

Intangible assets were $23.1 million, reflecting an increase of $8.1 million (54%) from December 31, 2015. The increase was primarily a result of the reclassification of deferred transaction costs described earlier. This was partially offset by impairment charges taken in the first quarter of this year on an indefinite life management contract in SAM.

Goodwill was $25.7 million, reflecting a decrease of $0.8 million (3%) from December 31, 2015. The decrease was entirely due to foreign exchange losses on translation of the Company's U.S. dollar denominated goodwill attributable to SAM.

Deferred income tax assets (net of deferred income tax liabilities) were $1.7 million, reflecting an increase of $6.7 million from December 31, 2015. The net increase was mainly due to a reduction in transitional partnership income currently taxable in the year.

Accounts payable and accrued liabilities were $24.5 million, reflecting an increase of $1.7 million (7%) from December 31, 2015. The increase was mainly due to higher accrued sub-advisor fees which more than offset the funding of the Employee Profit Sharing Plan ("EPSP").

Compensation payable was $13.3 million, reflecting an increase of $8.9 million from December 31, 2015. The increase relates to the timing of compensation accruals relative to payouts.

## REPORTABLE SEGMENTS - BY LINES OF BUSINESS

### SAM (Exchange Listed Products and Alternative Asset Management)

Summary Results of Operations:

| | 3 months ended | | | 12 months ended | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Dec. 31, 2016 | Dec. 31, 2015 | % Chg. | Dec. 31, 2016 | Dec. 31, 2015 | % Chg. |
| SUMMARY | | | | | | |
| Total AUM | 8,065,491 | 6,286,999 | 28 % | 8,065,491 | 6,286,999 | 28 % |
| Total revenues | 40,784 | 25,897 | 58 % | 108,777 | 72,395 | 50 % |
| Total expenses | 32,594 | 23,654 | 38 % | 83,641 | 64,328 | 30 % |
| Income (loss) before income taxes | 8,190 | 2,243 | n/m | 25,136 | 8,067 | n/m |
| Adjusted base EBITDA | 3,829 | 759 | n/m | 16,243 | 10,684 | 52 % |
| KEY REVENUE LINE ITEMS | | | | | | |
| **Exchange Listed Products:** | | | | | | |
| Management fees | 4,659 | 3,102 | 50 % | 17,957 | 13,121 | 37 % |
| **Alternative Asset Management:** | | | | | | |
| Management fees | 14,145 | 12,425 | 14 % | 54,432 | 49,743 | 9 % |
| Performance fees | 19,935 | 8,703 | n/m | 21,407 | 8,798 | n/m |
| less: trailer fees | 3,602 | 3,431 | 5 % | 14,612 | 14,219 | 3 % |
| less: sub-advisor fees | 10,553 | 6,218 | 70 % | 13,891 | 8,850 | 57 % |
| Net management and performance fees | 19,925 | 11,479 | 74 % | 47,336 | 35,472 | 33 % |
| **Investment holdings and other:** | | | | | | |
| Gains (losses) on proprietary investments | 439 | 1,861 | (76)% | 11,108 | (2,725) | n/m |
| Other income (loss) | 1,602 | (162) | n/m | 3,851 | 3,441 | 12 % |
| KEY EXPENSE LINE ITEMS | | | | | | |
| Compensation | 11,246 | 7,458 | 51 % | 27,636 | 20,463 | 35 % |
| Stock-based compensation | 902 | 587 | 54 % | 2,845 | 2,041 | 39 % |
| Selling, general and administrative | 3,981 | 4,594 | (13)% | 16,652 | 15,647 | 6 % |
| Impairment charges | — | — | n/m | 3,006 | — | n/m |
| SG&A Expense Ratio | 25% | 39% | | 29% | 33% | |

n/m = not meaningful

**Three and twelve months ended:**

Total revenues on a three and twelve months ended basis were $40.8 million and $108.8 million, reflecting an increase of $14.9 million and $36.4 million, respectively, from the prior periods. The increases were mainly a result of:

- Management fees: Higher due to increased exchange listed AUM on the closure of the GTU exchange offer, follow on offering of PSLV earlier in the year and improved average AUM from strong precious metals prices and increased sales of alternative credit products.
- Performance fees: Due to a combination of strong precious metals prices and alternative credit product performance.
- Gains on proprietary investments: Strong market value appreciation of our seeded investments during the first nine months of the year that was only partially offset by the softer fourth quarter environment for precious metals prices.

Total expenses (excluding impairment charges on intangible assets) on a three and twelve months ended basis were $32.6 million and $80.6 million, reflecting an increase of $8.9 million and $16.3 million, respectively, from the prior periods.

- The increase on a three months ended basis was mainly a result of:
  - Compensation: Higher salaries due to increased headcount, coupled with higher bonus accruals commensurate with higher EBITDA and performance fee generation.
  - Our cost containment program led to reduced SG&A expenses, which helped to partially offset the increased compensation spend described above.
- The increase on a twelve months ended basis was mainly a result of:
  - Compensation: As previously described.
  - SG&A: Higher as the effects of our cost containment program were increasingly felt in the second half of the year.

Adjusted base EBITDA on a three and twelve months ended basis was $3.8 million and $16.2 million, reflecting an increase of $3.1 million and $5.6 million, respectively, from the prior periods. The increase was mainly due to higher net management fees which more than offset the increase in compensation (and SG&A on a full year basis).

## GLOBAL (Private Resource Investments)

Summary Results of Operations:

| | 3 months ended | | | 12 months ended | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Dec. 31, 2016 | Dec. 31, 2015 | % Chg. | Dec. 31, 2016 | Dec. 31, 2015 | % Chg. |
| SUMMARY | | | | | | |
| Total AUM | 480,678 | 438,230 | 10 % | 480,678 | 438,230 | 10 % |
| Total revenues | 3,459 | 2,615 | 32 % | 18,092 | 9,282 | 95 % |
| Total expenses | 4,052 | 3,475 | 17 % | 16,517 | 44,912 | (63)% |
| Income (loss) before income taxes | (593) | (860) | 31 % | 1,575 | (35,630) | n/m |
| Adjusted base EBITDA | 1,203 | 364 | n/m | 4,601 | 1,320 | n/m |
| KEY REVENUE LINE ITEMS | | | | | | |
| **Asset management and private placement activities:** | | | | | | |
| Management fees | 1,904 | 1,855 | 3 % | 7,527 | 7,436 | 1 % |
| Commissions | 2,004 | 801 | n/m | 9,016 | 3,775 | n/m |
| **Investment holdings and other:** | | | | | | |
| Gains (losses) on proprietary investments | (594) | (159) | n/m | 1,180 | (1,239) | n/m |
| Other income (loss) | 119 | 100 | 19 % | 281 | (767) | n/m |
| KEY EXPENSE LINE ITEMS | | | | | | |
| Compensation | 1,941 | 1,375 | 41 % | 7,620 | 5,784 | 32 % |
| Selling, general and administrative | 1,052 | 959 | 10 % | 4,436 | 3,546 | 25 % |
| Impairment of Goodwill | — | — | n/m | — | 28,505 | n/m |
| Impairment of Intangibles | — | — | n/m | — | 2,731 | n/m |
| SG&A Expense Ratio | 25% | 34% | | 26% | 33% | |

n/m = not meaningful

**Three and twelve months ended:**

Total revenues on a three and twelve months ended basis were $3.5 million and $18.1 million, reflecting an increase of $0.8 million and $8.8 million, respectively, from the prior periods. The increases were mainly a result of:

- Commissions: Higher commissions due to improved client trading and private placement activity in SGRIL.
- Returns on proprietary investments: A softer fourth quarter environment for precious metals prices led to negative returns on a three months ended basis, but only partially offset our full year's positive returns on seeded fixed-term limited partnership interests, public equities and share purchase warrants.

Total expenses (excluding last year's impairment charges on goodwill and intangible assets) on a three and twelve months ended basis were $4.1 million and $16.5 million, reflecting an increase of $0.6 million and $2.8 million, respectively from the prior periods. The increase was mainly a result of:

- Compensation: Higher due to increased commission expense on improved client trading and private placement activity in SGRIL.
- SG&A: Higher due to increased trade execution costs from improved client trading activity.

Adjusted base EBITDA on a three and twelve months ended basis was $1.2 million and $4.6 million, reflecting an increase of $0.8 million and $3.3 million, respectively, from the prior periods. The increase from the prior periods was due to higher net commission income, partially offset by higher trade execution costs on increased trading activity.

## LENDING (Private Resource Investments)

Summary Results of Operations:

| | 3 months ended | | | 12 months ended | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Dec. 31, 2016 | Dec. 31, 2015 | % Chg. | Dec. 31, 2016 | Dec. 31, 2015 | % Chg. |
| SUMMARY | | | | | | |
| Total AUM [1] | 49,214 | — | n/m | 49,214 | — | n/m |
| Total revenues | 4,761 | 4,764 | n/m | 19,804 | 25,562 | (23) % |
| Total expenses | 962 | 4,231 | (77)% | 6,313 | 12,878 | (51) % |
| Income (loss) before income taxes | 3,799 | 533 | n/m | 13,491 | 12,684 | 6 % |
| Adjusted base EBITDA | 2,173 | 1,053 | n/m | 9,558 | 8,057 | 19 % |
| KEY REVENUE LINE ITEMS | | | | | | |
| **Private resource lending:** | | | | | | |
| Management Fees | 67 | — | n/m | 67 | — | n/m |
| Interest income | 3,171 | 3,741 | (15)% | 12,489 | 17,017 | (27) % |
| **Investment holdings and other:** | | | | | | |
| Gains (losses) on proprietary investments | (599) | (2,086) | 71 % | 7,106 | (2,876) | n/m |
| Other income (loss) | 2,122 | 3,109 | 32 % | 142 | 11,421 | n/m |
| KEY EXPENSE LINE ITEMS | | | | | | |
| Compensation | 613 | (1,521) | n/m | 2,794 | 2,255 | 24 % |
| Stock-based compensation | 140 | 78 | 80 % | 402 | 483 | (17) % |
| Selling, general and administrative | 320 | 322 | n/m | 937 | 922 | 2 % |
| Placement and referral Fees | 800 | — | n/m | 2,439 | — | n/m |
| Loan loss provisions (recoveries) | (911) | 5,351 | n/m | (259) | 9,217 | n/m |
| SG&A Expense Ratio | 9% | 8% | | 6% | 5% | |

n/m = not meaningful

[1] As at December 31, 2016, our Sprott Private Resource Lending LPs had $370 million in firm commitments, $50 million of which has been deployed.

**<u>Three and twelve months ended:</u>**

Total revenues on a three and twelve months ended basis were $4.8 million and $19.8 million, reflecting a slight decrease on a three months ended basis and a decrease of $5.8 million on a twelve months ended basis. The decrease was largely a result of:

- Interest income: Decreased due to lower average loan balances as we continue our efforts to wind down our on-balance sheet lending and build scale in our new private resource lending funds.
- Other income: Lower as a result of reduced foreign exchange gains in the quarter and foreign exchange losses on a full year basis.
- These revenue declines were partially offset by market value appreciation of certain public equities and share purchase warrants.

Total expenses on a three and twelve months ended basis were $1.0 million and $6.3 million, reflecting a decrease of $3.3 million and $6.6 million, respectively, from the prior periods. The decrease in total expenses on a three and twelve months ended basis was mainly a result of:

- Loan loss provisions (recoveries): Lower loan loss provisions due to the reversal of the general loan loss provision and the lack of any new specific loan loss provisions this year.
- The decrease in loan loss provisions was partially offset by placement fee expenses related to the start-up of our new private resource lending funds.

Adjusted base EBITDA on a three and twelve months ended basis was $2.2 million and $9.6 million, which increased $1.1 million and $1.5 million, respectively, from the prior periods. The increase was due to lower specific loan loss provisions, partially offset by a decrease in interest income and higher compensation expense.

## CONSULTING (Private Resource Investments)

Summary Results of Operations:

| ($ in thousands) | 3 months ended Dec. 31, 2016 | 3 months ended Dec. 31, 2015 | % Chg. | 12 months ended Dec. 31, 2016 | 12 months ended Dec. 31, 2015 | % Chg. |
|---|---|---|---|---|---|---|
| SUMMARY | | | | | | |
| Total AUM [1] | 652,600 | 700,800 | (7) % | 652,600 | 700,800 | (7) % |
| Total revenues | 1,269 | (361) | n/m | 5,717 | 6,348 | (10) % |
| Total expenses | 1,591 | 6,770 | (77) % | 6,450 | 22,784 | (72) % |
| Income (loss) before income taxes | (322) | (7,131) | 96 % | (733) | (16,436) | 96 % |
| Adjusted base EBITDA | (90) | (62) | 45 % | (62) | 1,383 | n/m |
| KEY REVENUE LINE ITEMS | | | | | | |
| **Consulting services to managed companies:** | | | | | | |
| Management fees | 1,033 | 1,042 | n/m | 4,009 | 4,780 | 16 % |
| Performance fees | — | — | — | — | 127 | n/m |
| **Investment holdings and other:** | | | | | | |
| Gains (losses) on proprietary investments | — | (2,400) | n/m | — | (2,400) | n/m |
| Other income (loss) | 233 | 993 | (77) % | 1,698 | 3,814 | (56 )% |
| KEY EXPENSE LINE ITEMS | | | | | | |
| Compensation | 724 | 682 | 6 % | 2,463 | 1,640 | 50 % |
| Stock-based compensation | 14 | 5 | n/m | 50 | (1,101) | n/m |
| Selling, general and administrative | 369 | 507 | (27) % | 1,565 | 1,583 | 1 % |
| Other expenses | 448 | 2,327 | (81) % | 2,214 | 7,899 | (72) % |
| Impairment of intangibles | — | — | n/m | — | 9,342 | n/m |
| Impairment of goodwill | — | 3,204 | n/m | — | 3,204 | n/m |
| SG&A Expense Ratio | 36% | 43% | | 38% | 33% | |

n/m = not meaningful

[1] Effective February 2016, certain management fees generated in the Consulting Segment are now earned on invested AUM rather than committed AUM.

**Three and twelve months ended:**

Total revenues on a three and twelve months ended basis were $1.3 million and $5.7 million, reflecting an increase of $1.6 million and a decrease of $0.6 million, respectively, from the prior periods.

- The increase on a three months ended basis was mainly a result of:
  - Return on proprietary investments: Increased due to there being no impairment charges on energy related assets in the period.
  - The lack of impairment charges on energy related assets was partially offset by lower management fees and decline in royalty income on seeded energy assets held.
- The decrease on a twelve months ended basis was mainly a result of:
  - Management fees: Lower primarily due to a reduction in average AUM in SRC.
  - Other income: Lower due to a decline in royalty income on seeded energy related assets held.
  - These revenue declines were partially offset by the lack of impairment charges on proprietary investments during the year.

Total expenses (excluding last year's impairment charges on intangible assets) on a three and twelve months ended basis were $1.6 million and $6.5 million, reflecting a decrease of $2.0 million and $3.8 million, respectively, from the prior periods. The decrease was mainly a result of:

- Other expenses: Lower operating expenses and depletion charges on seeded energy assets.
- On a twelve months ended basis the decrease noted above was partially offset by higher compensation (including stock-based) as prior period results included cash and equity based earn-out expense reversals relating to Sprott Toscana (fully vested on June 30, 2015). (See Note 8 of the annual financial statements).

Adjusted base EBITDA on a three and twelve months ended basis was negative $0.1 million. This reflects a nominal decrease on a three month ended basis and a decrease of $1.4 million on a twelve months ended basis. The decrease was mainly due to a combination of lower management fees and the prior period cash based earn-out reversals previously described.

## CORPORATE & OTHER

The Corporate segment provides treasury and shared services to the Company's subsidiaries. Principal subsidiaries in this business platform include Sprott Inc. (non-consolidated; "SII") and SPW.

Summary Results of Operations:

| | 3 months ended | | | 12 months ended | | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Dec. 31, 2016 | Dec. 31, 2015 | % Chg. | Dec. 31, 2016 | Dec. 31, 2015 | % Chg. |
| SUMMARY | | | | | | |
| Total revenues | (4,534) | 5,277 | n/m | 16,969 | 14,263 | 19 % |
| Total expenses | 5,011 | 5,375 | (7) % | 18,595 | 13,926 | 34 % |
| Income (loss) before income taxes | (9,545) | (98) | n/m | (1,626) | 337 | n/m |
| Adjusted base EBITDA | (2,400) | (2,319) | (4) % | (6,280) | (4,882) | (29) % |
| KEY REVENUE LINE ITEMS | | | | | | |
| **Shared services platform and SPW** | | | | | | |
| Commission income | 955 | 714 | 34 % | 4,819 | 3,233 | 49 % |
| Trailer fee income | 564 | 465 | 21 % | 2,333 | 2,045 | 14 % |
| Interest income | 432 | 391 | 11 % | 1,701 | 1,576 | 8 % |
| **Investment holdings and other:** | | | | | | |
| Gains (losses) on proprietary investments | (7,276) | 1,656 | n/m | 8,500 | (580) | n/m |
| Other income (loss) | 704 | 1,971 | (64) % | (712) | 7,734 | n/m |
| KEY EXPENSE LINE ITEMS | | | | | | |
| Compensation | 3,023 | 3,780 | (20) % | 8,661 | 7,960 | 9 % |
| Stock-based compensation | 703 | 100 | n/m | 3,090 | 553 | n/m |
| Selling, general and administrative | 1,227 | 1,473 | (17) % | 5,895 | 5,338 | 10 % |

n/m = not meaningful

**Three and twelve months ended:**

Total revenues on a three and twelve months ended basis were negative $4.5 million and $17.0 million, reflecting a decrease of $9.8 million on a three months ended basis and an increase of $2.7 million on a twelve months ended basis.

- The decrease on a three months ended basis was mainly a result of:
  - Returns on proprietary investments: A softer fourth quarter environment for precious metals prices led to a decline in returns on our precious metals focused seeded fund and equity holdings.
  - Other income: Reduced foreign exchange gains.
- The increase on a twelve months ended basis was mainly a result of:
  - Commissions: Higher due to increased private placement activity in SPW.
  - Returns on proprietary investments: Gains due to the strong market value appreciation of our precious metals focused seeded fund and equity holdings during the first nine months of the year.
  - These increases were partially offset by foreign exchange losses.

Total expenses on a three and twelve months ended basis were $5.0 million and $18.6 million, reflecting a decrease of $0.4 million on a three months ended basis and and an increase of $4.7 million on a twelve months ended basis.

- The decrease on a three months ended basis was mainly a result of:
  - Compensation: Lower due to lower transition costs related to employee exits.
  - This decline in compensation expense more than offset the higher amortization of stock-based compensation expense attributable to the new long-term incentive compensation plan adopted in the first quarter of this year.
- The increase on a twelve months ended basis was mainly a result of:
  - Compensation: Higher due to bonus accrual adjustments and higher commissions on improved private placement activity in SPW that more than offset lower transition costs.
  - Stock-based compensation: Higher due to the amortization of stock-based compensation noted above.
  - SG&A: Slightly higher due to lower intercompany SG&A charges backs.

Adjusted base EBITDA on a three and twelve months ended basis was negative $2.4 million and negative $6.3 million, which was down $0.1 million in the quarter and down $1.4 million on a twelve months ended basis. The decrease was mainly due to higher compensation and lower intercompany chargebacks on SG&A, partially offset by higher commission income in SPW.

## Dividends

The following dividends were declared by the Company during the year ended December 31, 2016:

| Record date | Payment Date | Cash dividend per share ($) | Total dividend amount ($ in thousands) |
|---|---|---|---|
| November 21, 2016 - regular dividend Q3 - 2016 | December 6, 2016 | 0.03 | 7,454 |
| August 23, 2016 - regular dividend Q2 - 2016 | September 6, 2016 | 0.03 | 7,454 |
| May 25, 2016 - regular dividend Q1 - 2016 | June 8, 2016 | 0.03 | 7,454 |
| March 22, 2016 - regular dividend Q4 - 2015 | April 5, 2016 | 0.03 | 7,384 |
| Dividends (1) | | | 29,746 |

(1) Subsequent to the year end, on March 1, 2017, a regular dividend of $0.03 per common share was declared for the quarter ended December 31, 2016. This dividend is payable on March 27, 2017 to shareholders of record at the close of business on March 10, 2017.

## Capital Stock

Including the 5.3 million unvested common shares currently held in the EPSP Trust (December 31, 2015 - 4.5 million), total capital stock issued and outstanding was 248.5 million (December 31, 2015 - 248.5 million).

Earnings per share for the current and prior periods have been calculated using the weighted average number of shares outstanding during the respective periods. Basic and diluted earnings (loss) per share were $0.00 and $0.13 on a three and twelve months ended ended basis compared to $(0.02) and $(0.16), in the prior periods. Diluted earnings (loss) per share reflects the dilutive effect of in-the-money stock options, shares held in the EPSP Trust for the equity incentive plan, estimated earn-out shares being accrued over the earn-out vesting period, and outstanding restricted stock units.

A total of 10.9 million stock options have been issued pursuant to our stock option plan, of which 4.1 million are exercisable.

## Liquidity and Capital Resources

Management fees and interest income can be projected and forecasted with a higher degree of certainty than performance fees and carried interests, and are therefore used as a base for budgeting and planning by the Company. Management fees and interest income are generally collected monthly or quarterly, which aids the Company's ability to manage cash flow. The Company believes that management fees and interest income will continue to be sufficient to satisfy ongoing operating needs, including expenditures on corporate infrastructure, business development and information systems. In addition, the Company holds sufficient cash and liquid securities to meet any other operating and capital requirements, if any, including its contractual commitments. The nature of the Company's operations ensures that the largest outflows, such as trailer fees and monthly compensation, are correlated with cash inflows such as management fees and interest income.

The Company has an undrawn credit facility with a major Canadian chartered bank in the amount of $35 million. Amounts may be borrowed under the facility through prime rate loans, or bankers' acceptances. Amounts may also be borrowed in U.S. dollars through base rate loans.

SPW and SAM are required to maintain a minimum amount of regulatory capital calculated in accordance with the rules of the Investment Industry Regulatory Organization of Canada ("IIROC") and of the Ontario Securities Commission ("OSC"), respectively. In addition, SGRIL is registered with the Financial Industry Regulatory Authority ("FINRA") in the United States and is required to maintain a minimum amount of regulatory capital calculated in accordance with the rules of FINRA and the Securities Exchange Commission.

## Commitments

Besides the Company's long-term lease agreements, there may be commitments to provide loans arising from the Lending segment or commitments to make investments in the proprietary investments portfolio of the Company. As at December 31, 2016, the Company had no loan commitments arising from the Lending business (December 31, 2015 - $29.3 million) and $35.5 million of investment purchase commitments in the proprietary investments portfolio (December 31, 2015 - $Nil).

## Significant Accounting Judgments and Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described below. The Company based its assumptions and estimates on parameters available when the annual financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions and estimates as they occur.

*Impairment of goodwill and intangible assets*

All indefinite life intangible assets and goodwill are assessed for impairment, however, finite life intangibles are only tested for impairment to the extent indications of impairment exist at time of a quarterly assessment. In the case of goodwill and indefinite life intangibles, an annual test for impairment augments the quarterly impairment indicator assessments. Values associated with goodwill and intangibles involve estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These estimates require significant judgment regarding market growth rates, fund flow assumptions, expected margins and costs which could affect the Company's future results if estimates of future performance and fair value change.

*Impairment of energy sector assets*

By their nature, estimates of discovered and probable energy reserves, as they pertain to royalties and working interests, including the estimates of future energy prices, costs, related future cash flows and the selection of a post-tax discount rate relevant to the assets in question are all subject to measurement uncertainty.

*Fair value of financial instruments*

When the fair value of financial assets and financial liabilities recorded in the consolidated balance sheets cannot be derived from active markets, they are determined using valuation techniques and models. Model inputs are taken from observable markets where possible, but where this is not feasible, unobservable inputs may be used. The use of unobservable inputs can involve significant judgment and materially affect the reported fair value of financial instruments.

*Share-based payments*

The Company measures the cost of share-based payments to employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including (in the case of options grants) the expected life of the option, volatility, and dividend yields, (and in the case of performance-based equity grants), the probability of a subsidiary or executive attaining certain performance targets, the future stock price of the Company and the future employment of a senior employee.

*Deferred tax assets*

Deferred tax assets are recognized for unused tax losses to the extent it is probable that sufficient taxable profit will be generated in order to utilize the losses. In addition, taxable income is subject to estimation as a portion of performance fee revenue is an allocation of partnership income. Such allocations involve a certain degree of estimation and income tax estimates could change as a result of: (i) changes in tax laws and regulations, both domestic and foreign; (ii) an amendment to the calculation of partnership income allocation; or (iii) a change in foreign affiliate rules. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based on the likely timing and the level of future taxable profits together with future tax planning strategies.

*Provisions, including provisions for loan losses and debentures*

Due to the nature of provisions (both specific and collective loan loss assessments), a considerable part of their determination is based on estimates and judgments, including assumptions concerning the likelihood of future events occurring. The actual outcome of these uncertain events may be materially different from the initial provision in the Company's financial statements. Management exercises judgment to determine whether indicators of loan or debenture impairment exist (on either a specific or collective basis), and if so, management must estimate the timing and amount of future cash flows from loans receivable and debentures.

*Investments in other entities*

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") and IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") provide for the use of judgment in determining whether an investee should be included within the consolidated financial statements of the Company and on what basis (subsidiary, joint venture or associate). Significant judgment is applied in evaluating facts and circumstances relevant to the Company and investee, including: (i) the extent of the Company's direct and indirect interests in the investee; (ii) the level of compensation to be received from the investee for management and other services provided to it; (iii) "kick out rights" available to other investors in the investee; and (iv) other indicators of the extent of power that the Company has over the investee.

**Managing Risk: Financial**

Market risk

The Company separates market risk into three categories: price risk, interest rate risk and foreign currency risk.

*Price risk*

Price risk arises from the possibility that changes in the price of the Company's proprietary investments will result in changes in carrying value or recoverable amount. The Company's revenues are also exposed to price risk since management fees, performance fees and carried interests are correlated with AUM, which fluctuates with changes in the market values of the assets in the funds and managed accounts managed by the Company. Commodity price risk refers to uncertainty of future market values caused by fluctuation in the price of a commodity. The Company may, from time to time: (i) hold certain investments linked to the market prices of precious metals or energy assets; and (ii) enter into certain precious metal loans, where loan repayments are notionally tied to a specific commodity spot price.

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will adversely affect the value of, or cash flows from, financial instrument assets. The Company's earnings, particularly through its Lending segment, are exposed to volatility as a result of sudden changes in interest rates.

*Foreign currency risk*

Foreign currency risk arises from foreign exchange rate movements that could negatively impact either the carrying value of financial assets and liabilities or the related cash flows when translating those balances into Canadian dollars. The Company's primary foreign currency is the United States Dollar ("USD"). The Company may employ certain hedging strategies to mitigate foreign currency risk.

Credit risk

Credit risk is the risk that a borrower will not honor its commitments and a loss to the Company may result. Credit risk generally arises in the Company's loans receivable and proprietary investments areas.

*Loans receivable*

The Company incurs credit risk primarily in the loan portfolio of SRLC. In addition to the relative default probability of SRLC borrowers, credit risk is also dependent on loss given default, which can increase credit risk if the values of the underlying assets securing the Company's loans decline to levels approaching or below the loan amounts. A decrease in commodity prices may delay the development of the underlying security or business plans of the borrower and could adversely affect the value of the Company's security against a resource loan or resource debenture. Additionally, the value of the Company's underlying security in a resource loan or resource debenture can be negatively affected if the actual amount or quality of the commodity proves to be less than originally estimated, or the ability to extract the commodity proves to be more difficult or more costly than originally estimated. During the resource loan and resource debenture origination process, management takes into account a number of factors and is committed to several processes to ensure that this risk is appropriately mitigated.

*Collectability of loans*

Besides the above noted measures we take to manage credit risk, the Company will report on credit risk in the notes to the annual financial statements and records loan loss provisions (both specific and general) to ensure the loans are recorded at their estimated recoverable amount (i.e. net of impairment risk we believe to exist as at the balance sheet date and in accordance with IFRS). Actual losses incurred in the loan portfolio could differ materially from our provisions.

*Proprietary investments*

The Company incurs credit risk when entering into, settling and financing various proprietary transactions.

*Other*

The majority of accounts receivable relate to management and performance fees receivable from the funds, managed accounts and managed companies managed by the Company. These receivables are short-term in nature and any credit risk associated with them is managed by dealing with counterparties that the Company believes to be creditworthy and by actively monitoring credit exposure and the financial health of the counterparties.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. Additionally, the Company has access to a $35 million committed line of credit with its primary lender. As part of its cash management program, the Company primarily invests in short-term debt securities issued by the Government of Canada with maturities of less than three months.

The Company's exposure to liquidity risk as it relates to loans receivable arises from fluctuations in cash flows from making loan advances and receiving loan repayments. The Company manages its loan commitment liquidity risk through the ongoing monitoring of scheduled loan fundings and repayments and through its broader treasury risk management program.

Financial liabilities, including accounts payable and accrued liabilities and compensation and employee bonuses payable, are short-term in nature and are generally due within a year.

The Company's management team is responsible for reviewing resources to ensure funds are readily available to meet its financial obligations (e.g. dividend payments) as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. The Company manages liquidity risk by monitoring cash balances on a daily basis and through its broader treasury risk management program. To meet any liquidity shortfalls, actions taken by the Company could include: syndicating a portion of its loans; slowing its lending activities; cutting its dividend; drawing on available loan facilities; liquidating proprietary investments; and/or issuing common shares.

Concentration risk

A significant portion of the Company's AUM as well as its proprietary investments and loans are focused on the natural resource sector. In addition, from time-to-time, certain proprietary and loan positions may be concentrated to a material degree in a single position or group of positions.

Disclosure Controls and Procedures ("DC&P") and Internal Control over Financial Reporting ("ICFR")

Management is responsible for the design and operational effectiveness of DC&P and ICFR in order to provide reasonable assurance regarding the disclosure of material information relating to the Company. This includes information required to be disclosed in the Company's annual filings, interim filings and other reports filed under securities legislation, as well as the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Consistent with *National Instrument 52-109*, the Company's CEO and CFO evaluate quarterly the DC&P and ICFR. As at December 31, 2016, the Company's CEO and CFO concluded that the Company's DC&P and ICFR were properly designed and were operating effectively. In addition, there were no material changes to ICFR during the year.

## Managing Risk: Non-financial

### Confidentiality of Information

Confidentiality is essential to the success of the Company's business, and it strives to consistently maintain the highest standards of trust, integrity and professionalism. Account information is kept under strict control in compliance with all applicable laws, and physical, procedural, and electronic safeguards are maintained in order to protect this information from access by unauthorized parties. The Company keeps the affairs of its clients confidential and does not disclose the identities of clients (absent expressed client consent to do so). If a prospective client requests a reference, the Company will not provide the name of an existing client before receiving permission from that client to do so.

### Conflicts of Interest

The Company established a number of policies with respect to employee personal trading. Employees may not trade any of the securities held or being considered for investment by any of the Company's funds without prior approval. In addition, employees must receive prior approval before they are permitted to buy or sell securities. Speculative trading is strongly discouraged. While employees are permitted to have investments managed by third parties on a discretionary basis, they generally choose to invest in funds managed by the Company. All employees must comply with the Company's Code of Ethics. The code establishes strict rules for professional conduct including the management of conflicts of interest.

### Independent Review Committee

National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107") requires all publicly offered investment funds to establish an independent review committee ("IRC") to whom all conflicts of interest matters must be referred for review and approval. The Company established an IRC for its public funds. As required by NI 81-107, the Company established written policies and procedures for dealing with conflict of interest matters and maintains records in respect of these matters and provides assistance to the IRC in carrying out its functions. The IRC is comprised of three independent members, and is subject to requirements to conduct regular assessments and provide reports to the Company and to the holders of interests in public mutual funds in respect of its functions.

### Insurance

The Company maintains appropriate insurance coverage for general business and liability risks as well as insurance coverage required by regulation. Insurance coverage is reviewed periodically to ensure continued adequacy.

### Internal Controls and Procedures

Several of the Company's subsidiaries operate in regulated environments and are subject to business conduct rules and other rules and regulations. The Company has internal control policies related to business conduct. They include controls required to ensure compliance with the rules and regulations of relevant regulatory bodies including the OSC, IIROC, FINRA and the U.S. Securities and Exchange Commission ("SEC").

*Consolidated Financial Statements*

Year ended December 31, 2016

SPROTT

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements, which consolidate the financial results of Sprott Inc. (the "Company"), were prepared by management, who are responsible for the integrity and fairness of all information presented in the consolidated financial statements and management's discussion and analysis ("MD&A") for the year ended December 31, 2016. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. Financial information presented in the MD&A is consistent with that in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in Note 2 of the consolidated financial statements. Management maintains a system of internal controls to meet its responsibilities for the integrity of the consolidated financial statements.

The board of directors (the "Board of Directors") of the Company appoints the Company's audit and risk committee (the "Audit & Risk Committee") annually. Among other things, the mandate of the Audit & Risk Committee includes the review of the consolidated financial statements of the Company on a quarterly basis and the recommendation to the Board of Directors for approval. The Audit & Risk Committee has access to management and the auditors to review their activities and to discuss the external audit program, internal controls, accounting policies and financial reporting matters.

KPMG LLP performed an independent audit of the consolidated financial statements, as outlined in the auditors' report contained herein. KPMG LLP had, and has, full and unrestricted access to management of the Company, the Audit & Risk Committee and the Board of Directors to discuss their audit and related findings and have the right to request a meeting in the absence of management at any time.

Peter Grosskopf
Chief Executive Officer

Kevin Hibbert, CPA, CA
Chief Financial Officer and Corporate Secretary

March 1, 2017

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sprott Inc.

We have audited the accompanying consolidated financial statements of Sprott Inc., which comprise the consolidated balance sheet as at December 31, 2016, the consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of Sprott Inc. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Comparative Information

The consolidated financial statements of Sprott Inc. as at and for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those financial statements on March 10, 2016.

Chartered Professional Accountants, Licensed Public Accountants

March 1, 2017

Toronto, Canada

## CONSOLIDATED BALANCE SHEETS

| As at<br>*($ in thousands of Canadian dollars)* | | Dec. 31<br>2016 | Dec. 31<br>2015 |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Cash and cash equivalents | | 123,955 | 107,622 |
| Fees receivable | | 26,070 | 13,531 |
| Loans receivable | *(Note 6)* | 11,631 | 53,200 |
| Proprietary investments | *(Note 3)* | 147,545 | 136,809 |
| Other assets | *(Note 7)* | 9,893 | 8,327 |
| Income taxes recoverable | | 1,511 | 1,632 |
| **Total current assets** | | 320,605 | 321,121 |
| Loans receivable | *(Note 6)* | 56,047 | 47,602 |
| Other assets | *(Note 7)* | 2,957 | 15,819 |
| Property and equipment, net | *(Note 4)* | 6,311 | 6,344 |
| Intangible assets | *(Note 5)* | 23,059 | 14,968 |
| Goodwill | *(Note 5)* | 25,710 | 26,498 |
| Deferred income taxes | *(Note 9)* | 5,335 | 1,524 |
| | | 119,419 | 112,755 |
| **Total assets** | | 440,024 | 433,876 |
| **Liabilities and Shareholders' Equity** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | 24,491 | 22,818 |
| Compensation payable | | 13,258 | 4,313 |
| Obligations related to securities sold short | *(Note 3)* | 29,810 | 40,191 |
| Income taxes payable | | 8,480 | 1,704 |
| **Total current liabilities** | | 76,039 | 69,026 |
| Deferred income taxes | *(Note 9)* | 3,671 | 6,608 |
| **Total liabilities** | | 79,710 | 75,634 |
| **Shareholders' equity** | | | |
| Capital stock | *(Note 8)* | 411,231 | 412,344 |
| Contributed surplus | *(Note 8)* | 41,802 | 38,749 |
| Deficit | | (126,264) | (128,056) |
| Accumulated other comprehensive income | | 33,545 | 35,205 |
| **Total shareholders' equity** | | 360,314 | 358,242 |
| **Total liabilities and shareholders' equity** | | 440,024 | 433,876 |

Commitments and provisions *(Note 15)*

*See accompanying notes*

Eric Sprott
Director

James Roddy
Director

## CONSOLIDATED STATEMENTS OF OPERATIONS

| *($ in thousands of Canadian dollars, except for per share amounts)* | | *For the years ended* Dec. 31 2016 | Dec. 31 2015 |
|---|---|---|---|
| **Revenues** | | | |
| Management fees | | 84,320 | 75,335 |
| Performance fees | | 21,407 | 8,925 |
| Commissions | | 13,835 | 7,008 |
| Interest income | | 14,310 | 18,714 |
| Gains (losses) on proprietary investments | | 27,894 | (9,820) |
| Other Income | *(Note 7)* | 5,421 | 25,845 |
| **Total revenue** | | 167,187 | 126,007 |
| **Expenses** | | | |
| Compensation | | 49,174 | 38,102 |
| Stock-based compensation | *(Note 8)* | 6,387 | 1,976 |
| Trailer fees | | 12,618 | 12,547 |
| Sub-advisor fees | | 13,891 | 8,876 |
| Placement and referral fees | | 4,528 | 404 |
| Loan loss provisions (recoveries) | *(Note 6)* | (259) | 9,217 |
| Selling, general and administrative | | 29,485 | 27,036 |
| Amortization of intangibles | *(Note 5)* | 6,501 | 5,550 |
| Impairment of intangibles | *(Note 5)* | 3,006 | 12,073 |
| Impairment of goodwill | *(Note 5)* | — | 31,709 |
| Amortization of property and equipment | *(Note 4)* | 920 | 846 |
| Other expenses | *(Note 7)* | 3,093 | 8,649 |
| **Total expenses** | | 129,344 | 156,985 |
| **Income (loss) before income taxes for the period** | | 37,843 | (30,978) |
| Provision for income taxes | *(Note 9)* | 6,305 | 8,653 |
| Net income (loss) for the year | | 31,538 | (39,631) |
| **Basic and diluted earnings (loss) per share** | *(Note 8)* | $ 0.13 | $ (0.16) |

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| *($ in thousands of Canadian dollars)* | *For the years ended* Dec. 31 2016 | Dec. 31 2015 |
|---|---|---|
| **Net income (loss) for the year** | 31,538 | (39,631) |
| **Other comprehensive income (loss)** | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Foreign currency translation gain (loss) on foreign operations (taxes of $Nil) | (1,660) | 14,805 |
| Total other comprehensive income (loss) | (1,660) | 14,805 |
| **Comprehensive income (loss)** | 29,878 | (24,826) |

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| *($ in thousands of Canadian dollars, other than number of shares)* | | Number of Shares Outstanding | Capital Stock | Contributed Surplus | Deficit | Accumulated Other Comprehensive Income | Total Equity |
|---|---|---|---|---|---|---|---|
| **At Dec. 31, 2015** | | 243,996,605 | 412,344 | 38,749 | (128,056) | 35,205 | 358,242 |
| Shares acquired for equity incentive plan | *(Note 8)* | (1,850,000) | (4,473) | — | — | — | (4,473) |
| Shares released on vesting of equity incentive plan | *(Note 8)* | 1,033,426 | 3,334 | (3,334) | — | — | — |
| Foreign currency translation gain (loss) on foreign operations | | — | — | — | — | (1,660) | (1,660) |
| Stock-based compensation | *(Note 8)* | — | — | 6,387 | — | — | 6,387 |
| Dividends declared | *(Note 12)* | 10,262 | 26 | — | (29,746) | — | (29,720) |
| Net income | | — | — | — | 31,538 | — | 31,538 |
| **Balance, Dec. 31, 2016** | | 243,190,293 | 411,231 | 41,802 | (126,264) | 33,545 | 360,314 |
| | | | | | | | |
| **At Dec. 31, 2014** | | 246,021,326 | 414,668 | 42,199 | (58,655) | 20,400 | 418,612 |
| Shares acquired for equity incentive plan | | (3,119,030) | (7,750) | — | — | — | (7,750) |
| Shares released on vesting of equity incentive plan | | 956,845 | 4,879 | (4,879) | — | — | — |
| Foreign currency translation gain on foreign operations | | — | — | — | — | 14,805 | 14,805 |
| Issuance of share capital on share-base consideration | | 136,064 | 543 | (543) | — | — | — |
| Stock-based compensation | | — | — | 1,976 | — | — | 1,976 |
| Shares issued from treasury | | 1,400 | 4 | (4) | — | — | — |
| Dividends declared | | — | — | — | (29,770) | — | (29,770) |
| Net loss | | — | — | — | (39,631) | — | (39,631) |
| **Balance, Dec. 31, 2015** | | 243,996,605 | 412,344 | 38,749 | (128,056) | 35,205 | 358,242 |

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| ($ in thousands of Canadian dollars) | For the years ended Dec. 31 2016 | Dec. 31 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net income (loss) for the year | 31,538 | (39,631) |
| Add (deduct) non-cash items: | | |
| Losses (gains) on proprietary investments | (27,894) | 9,820 |
| Stock-based compensation | 6,387 | 1,976 |
| Amortization of property, equipment and intangible assets | 7,421 | 6,396 |
| Impairment of intangible assets | 3,006 | 12,073 |
| Impairment of goodwill | — | 31,709 |
| Loan loss provisions | (259) | 9,217 |
| Deferred income taxes (recovery) | (6,629) | 2,400 |
| Current income tax expense | 12,934 | 6,253 |
| Other items | (5,606) | (359) |
| Income taxes paid | (6,077) | (57) |
| Changes in: | | |
| Fees receivable | (12,596) | (127) |
| Loans receivable | 33,574 | 13,153 |
| Accounts payable, accrued liabilities and compensation payable | 11,606 | (11,141) |
| Other assets | 10,322 | (1,124) |
| **Cash provided by operating activities** | 57,727 | 40,558 |
| **Investing Activities** | | |
| Purchase of proprietary investments | (111,448) | (53,512) |
| Sale of proprietary investments | 123,564 | 59,325 |
| Purchase of property and equipment | (915) | (865) |
| Deferred sales commissions paid | (686) | (1,459) |
| Costs related to an exchange offer | — | (11,711) |
| Internalization of performance fees | — | 3,475 |
| Purchase of intangible assets | (17,203) | (459) |
| **Cash used in investing activities** | (6,688) | (5,206) |
| **Financing Activities** | | |
| Acquisition of common shares for equity incentive plan | (4,473) | (7,750) |
| Loan payable (repayment) | — | (15,000) |
| Dividends paid | (29,720) | (29,770) |
| **Cash used in financing activities** | (34,193) | (52,520) |
| Effect of foreign exchange on cash balances | (513) | 4,016 |
| **Net increase (decrease) in cash and cash equivalents during the year** | 16,333 | (13,152) |
| Cash and cash equivalents, beginning of the year | 107,622 | 120,774 |
| **Cash and cash equivalents, end of the year** | 123,955 | 107,622 |
| **Cash and cash equivalents:** | | |
| Cash | 116,695 | 103,373 |
| Short-term deposits | 7,260 | 4,249 |
| | 123,955 | 107,622 |
| **Supplementary disclosure of cash flow information** | | |
| Amount of interest received during the year | 5,398 | 8,685 |

*See accompanying notes*

## 1. CORPORATE INFORMATION

Sprott Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on February 13, 2008. Its registered office is at Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2700, Toronto, Ontario M5J 2J1.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These annual audited consolidated financial statements for the years ended December 31, 2016 and 2015 ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

They have been authorized for issue by a resolution of the Board of Directors of the Company on March 1, 2017 and include all subsequent events up to that date.

### Basis of presentation

These financial statements have been prepared on a going concern basis and on a historical cost basis, except for financial assets and financial liabilities classified as held-for-trading ("HFT"), designated as fair value through profit or loss ("FVTPL"), or available-for-sale ("AFS"), all of which have been measured at fair value. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand ($000), except when indicated otherwise.

### Principles of consolidation

These financial statements of the Company are prepared on a consolidated basis so as to include the accounts of all limited partnerships and corporations the Company is deemed to control under IFRS. Controlled limited partnerships and corporations ("subsidiaries") are consolidated from the date the Company obtains control. All intercompany balances with subsidiaries are eliminated upon consolidation. Subsidiary financial statements are prepared over the same reporting period as the Company's and are based on accounting policies consistent with that of the Company.

Control exists if the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of returns the Company receives. In many, but not all instances, control will exist when the Company owns more than one half of the voting rights of a corporation, or is the sole limited and general partner of a limited partnership.

The Company currently controls the following principal subsidiaries:

- Sprott Asset Management LP ("SAM");
- Sprott Private Wealth LP ("SPW");
- Sprott Consulting LP ("SC");
- Sprott Asia LP ("Sprott Asia");
- Sprott Korea Corporation ("Sprott Korea");
- Sprott U.S. Holdings Inc. ("SUSHI"), parent of: (i) Rule Investments Inc. (ii) Sprott Global Resource Investments Ltd. ("SGRIL"); (iii) Sprott Asset Management USA Inc. ("SAM US"); and (iv) Resource Capital Investment Corporation ("RCIC"). Collectively, the interests of SUSHI are referred to as "Global" in these financial statements;
- Sprott Resource Lending Corp. ("SRLC");
- Toscana Energy Corporation ("TEC") and Toscana Capital Corporation ("TCC") (Collectively, "Sprott Toscana");
- Sprott Genpar Ltd.;
- SAMGENPAR Ltd.; and
- Sprott Inc. 2011 Employee Profit Sharing Plan Trust (the "Trust").

### Investments in funds

Investments in funds managed by the Company and included in proprietary investments are assessed to determine whether the Company has control, joint control or significant influence. This determination includes consideration of all facts and circumstances relevant to a fund, including the extent of the Company's direct and indirect interests in a fund, the level of compensation to be received from a fund for management and other services provided to it, kick out rights available to other investors and other indicators of power the Company has over a fund. If a fund is determined to be controlled, it will be consolidated by the Company. If a fund is determined to be subject to significant influence, the Company may designate the investment at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") and as permitted by IAS 28 *Investments in Associates and Joint Ventures*.

The Company manages a range of funds that take the form of public mutual funds, alternative investment strategies, exchange traded funds, bullion funds and fixed-term limited partnerships, all of which meet the definition of structured entities under IFRS. The principal place of business of the funds is Toronto, Ontario. As at December 31, 2016, assets under management in public mutual funds were $2.5 billion (December 31, 2015 - $2.4 billion); alternative investment strategies were $1.1 billion (December 31, 2015 - $0.9 billion); exchange listed funds were $4.4 billion (December 31, 2015 - $3.0 billion); resource lending through our private resource lending funds were $49.2 million (December 31, 2015 - $Nil) and fixed-term limited partnerships were $0.3 billion (December 31, 2015 - $0.3 billion). The Company had investments in 22 funds (December 31, 2015 - 20) with an average ownership interest of 11% (December 31, 2015 - 10%) across its total fund universe. The Company provides no guarantees against the risk of financial loss to the investors of these investment funds.

### Recognition of income

Management fees are recognized on an accrual basis over the period during which the related services are rendered and are collected monthly, quarterly or annually.

Performance fee revenue is recognized when earned, according to agreements in the underlying funds, managed accounts and managed companies which is predominantly on the last day of the fiscal year. Fees arising from carried interest entitlements, and presented as performance fees, are recorded on an accrual basis when earned, which follows the expiry of any claw-back periods.

Trailer fee income and commission income are recognized on an accrual basis over the period during which the related service is rendered.

Interest income is recognized on an accrual basis using the effective interest method. Under the effective interest method, the interest rate realized is not necessarily the same as the stated rate in the loan or debenture documents. The effective interest rate is the rate required to discount the future value of all loan or debenture cash flows to their present value and is adjusted for the receipt of cash and non-cash items in connection with the loan.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks and with carrying brokers, which are not subject to restrictions, and short-term interest bearing notes and treasury bills with a term to maturity of less than three months from the date of purchase.

### Proprietary investments

Public equities, share purchase warrants and fixed income securities are measured at fair value and are accounted for on a trade-date basis.

Mutual fund and alternative investment strategy investments are valued using the net asset value per unit of the fund, which represents the underlying net assets at fair values determined using closing market prices. These investments are generally made in the process of launching a new fund and are redeemed (if open-end) or sold (if closed-end) as third party investors subscribe. The balance represents the Company's maximum exposure to loss associated with the investments.

Private holdings include the following:

*Private company investments*

Private company investments are classified as HFT and carried at fair value based on the value of the Company's interests in the private companies determined from financial information provided by management of the private companies, which may include operating results, subsequent rounds of financing and other appropriate information. Any change in fair value is recognized on the consolidated statements of operations.

*Energy sector investments*

The Company has investments in gross overriding royalties and working interest properties. Interests in gross overriding royalties are accounted for as AFS investments, and thus, are fair valued through other comprehensive income, which is based on estimated future cash flows and expected return from future royalty payments. Working interest properties are accounted for in accordance with IAS 16 *Property, Plant and Equipment.* The initial cost of working interest assets consist of purchase price or construction costs, any costs directly attributable to bringing the asset into operation, including directly attributable general and administrative expenses, the initial estimate of the decommissioning obligation and, for qualifying assets, borrowing costs. All of these costs are initially capitalized as part of proprietary investments on the Company's balance sheets and are net of accumulated depletion and impairment charges, if any. When a development project moves into the production stage, the capitalization of certain construction/development costs ceases and costs are regarded as part of inventory or expensed, except for costs that qualify for capitalization relating to energy property asset additions, improvements, or new developments. Working interests at the development and production stage are depleted on a units-of-production basis over total proved developed and undeveloped energy reserves, as appropriate. The Company does not have oil and gas working interests in the exploration and evaluation stage.

*Foreclosed properties*

Foreclosed properties held for sale include properties for which the Company is entitled, through court order, to take title or to enforce the sale, unconditionally. In accordance with IFRS 5 *Non-current Assets held For Sale and Discontinued Operations*, foreclosed properties held for sale that are in saleable condition and for which a sale is considered highly probable are classified as held for sale and are initially measured at the lower of carrying value or fair value less estimated costs to sell. Subsequent changes in carrying values of foreclosed properties are reported within gains (losses) on proprietary investments in the consolidated statements of operations. Amortization is not recorded on foreclosed properties held for sale. An extension of the period required to complete the sale would not preclude the properties from being classified as held for sale when the delay is caused by events or circumstances beyond the Company's control and there is sufficient evidence that the Company remains committed to its plan to sell the asset. The Company uses management's best estimate to determine the fair value of foreclosed properties, which involves engaging realtors, valuation experts and other professionals as deemed necessary to obtain independent property appraisals and assessments of market conditions. Costs to sell include property taxes and realtor commissions.

**Loans receivable**

*Precious metal loans*

Precious metal loans are initially measured at fair value. After initial measurement, precious metal loans are designated as FVTPL or classified as Held to Maturity ("HTM"). All funds advanced to a borrower are first allocated to the value of any shares, warrants, commitment fees, etc. and are recognized as part of proprietary investments on the Company's balance sheet. The remaining funds are recognized as loan principal on the balance sheet. At each reporting period, precious metal loans designated as FVTPL are fair valued using published futures contract prices for precious metals and discount rates to reflect the time value of money. Discount rates are reviewed at each reporting period and adjusted as necessary for changes in credit risk of the borrower, or for changes in relevant market conditions. To assess market changes, the Company reviews yields to maturity for a group of comparable loans or borrowings trading in the market based on similar characteristics such as term to maturity, security rankings and business risks.

*Resource loans and debentures*

Resource loans and debentures are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value. After initial measurement, they are subsequently measured at amortized cost using the effective interest method, less impairment, if any.

Fees received for originating loans are considered an integral part of the yield earned on the loan and are recognized in interest income over the term of the loan using the effective interest method. Fees received may include cash payments and/or securities in the borrower.

*Impairment of resource loans and debentures - Specific loan loss provisions and impairment charges*

Loans and debentures invested in by the Company are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the loan or debenture, the estimated future cash flows have been affected.

At each reporting date, management assesses whether there are indicators that specific loan loss provisions (or impairment charges in the case of debentures) are required based on factors that may include economic and market trends, the impairment status of loans or debentures, the quoted credit rating of the borrower, market value of the asset, and appraisals, if any, of the security underlying the loan or debenture. If these factors indicate that the carrying value may not be recoverable, or the repayment of contractual amounts due may be delayed, management compares the carrying value with the discounted present values of estimated future cash flows which are discounted using the original effective interest rate on the loan or debenture. To the extent that discounted estimated future cash flows are less than the carrying value, a specific loan loss provision (or impairment charge in the case of a debenture) is recorded. Any subsequent recognition of interest income for which a specific loan loss provision or impairment charge exists, is calculated at the discount rate used in determining the provision or impairment charge, which may differ from the contractual rate of interest.

Should the cash flow assumptions used to determine the original specific loan loss provision or impairment charge change, the specific loan loss provision or impairment charge may be reversed. A specific loan loss provision or impairment charge is reversed only to the extent that the revised carrying value does not exceed its amortized cost that would have been recorded had no specific loan loss provision or impairment charge been recognized.

*Impairment of resource loans - Collective loan loss assessments*

In light of continued challenges in the global resources sector, effective October 1, 2015, management implemented a collective loan loss assessment approach to further augment its loan loss provisioning process over resource loans.

Resource loans which are individually assessed and not determined to be impaired, are collectively assessed for impairment. For the purposes of a collective evaluation of impairment, resource loans are grouped on the basis of similar risk characteristics, taking into account loan type, industry, geographic location, collateral type, past due status and other relevant factors, as necessary.

The collective impairment allowance is determined by reviewing factors including, but not limited to: (1) historical loss experience, which takes into consideration historical probabilities of default and loss given default, in portfolios of similar credit risk characteristics; and (2) management's judgment on the level of impairment losses based on historical experience relative to the actual level as reported at the balance sheet date, taking into consideration the current portfolio credit quality trends, business and economic and credit conditions, the impact of policy and process changes, and other supporting factors. Future cash flows for a group of loans are collectively evaluated for impairment on the basis of the contractual cash flows of the resource loans in the group and historical loss experience for resource loans with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on the current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based. Collectively-assessed impairment losses reduce the carrying amount of the aggregated resource loan position through an allowance account and the amount of the loss is recognized in the Loan loss provision line of the consolidated statements of operations.

### Financial instruments

Financial instrument assets held by the Company are classified as HFT, designated as FVTPL, AFS, HTM or as loans and receivables. Financial instrument liabilities may be classified as either HFT or other. All financial instruments held by the Company are initially measured at fair value. After initial recognition, financial instruments classified as HFT, AFS or those designated as FVTPL are measured at fair value using quoted market prices in active markets where available or through the use of valuation techniques as appropriate. Precious metal loans are designated as FVTPL or classified as HTM. Changes in fair value of the Company's financial instruments are reflected in net income, with the exception of: (i) financial instruments classified as HTM, loans and receivables and other financial liabilities, which are all measured at amortized cost using the effective interest rate method; and (ii) AFS investments that have their changes in fair value recorded in other comprehensive income. Transaction costs related to financial assets classified as HFT or designated as FVTPL are expensed as incurred.

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets classified as loans and receivables, AFS or HTM, is impaired. A financial asset, or a group of financial assets, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets and it can be reliably estimated.

Financial instruments included in the Company's accounts have the following classifications:

- Cash and cash equivalents are classified as HFT;
- Fees receivable, proceeds receivable (part of other assets) and loans receivable (other than precious metal loans) are classified as loans and receivables;
- Precious metal loans are designated as FVTPL or classified as HTM;
- Proprietary investments in financial instruments are classified as follows: (i) public equities and share purchase warrants are classified as HFT; (ii) mutual funds and alternative investment strategies are classified as HFT; (iii) fixed income securities are classified as HFT; (iv) private holdings are classified as HFT or AFS; and
- Accounts payable and accrued liabilities, loan payable and compensation payable are classified as other financial liabilities.

*Fair value option*

A financial instrument can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing it in the near term. An instrument that is designated as FVTPL must have a reliably measurable fair value and satisfy one of the following criteria: (i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing gains and losses on them on a different basis; (ii) it belongs to a group of financial assets or financial liabilities or both that are managed, evaluated, and reported to senior management on a fair value basis in accordance with the Company's documented investment or risk management strategy, and information about the group is provided internally on that basis to the Company's key management personnel; or (iii) there is an embedded derivative in the financial or non-financial host contract and the embedded derivative can significantly modify the cash flows required under the contract.

Financial instruments designated as FVTPL are recorded at fair value with any gain or loss being included with gains (losses) on proprietary investments. These financial instruments cannot be reclassified out of the FVTPL category while they are held or issued.

*Fair value hierarchy*

All financial instruments recognized at fair value in the consolidated balance sheets are classified into three fair value hierarchy levels as follows:

Level 1: valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means; and

Level 3: valuation techniques with significant unobservable market inputs.

The Company will transfer financial instruments into or out of levels in the fair value hierarchy to the extent the instrument no longer satisfies the criteria for inclusion in the category in question. Level 3 valuations are prepared by the Company and reviewed and approved by management at each reporting date. Valuation results, including the appropriateness of model inputs, are compared to actual market transactions to the extent readily available. Valuations of level 3 assets are also discussed with the Audit Committee as deemed necessary by the Company.

*Available-for-sale investments*

AFS investments are measured at fair value. Unrealized gains and losses arising from changes in fair value are included in other comprehensive income. When an AFS investment is sold, the cumulative gain or loss recorded in other comprehensive income is recycled into net income. At each reporting date, and more frequently when conditions warrant, the Company evaluates AFS investments to determine whether there is any objective evidence of impairment. If an AFS investment is impaired, the cumulative unrealized loss previously recognized in other comprehensive income is removed from equity and recognized in net income. Subsequent to impairment, further declines in fair value are recorded in net income, while increases in fair value are recognized in other comprehensive income until the AFS investment is sold.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported on the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

**Property and equipment**

Property and equipment are recorded at cost and are amortized on a declining balance basis over the expected useful life which ranges from 1 to 5 years. Leasehold improvements are amortized on a straight-line basis over the term of the lease. Artwork is not amortized since it does not have a determinable useful life. The residual values, useful life and methods of amortization for property and equipment are reviewed at each reporting date and adjusted prospectively, if necessary.

**Deferred sales commissions**

Sales commissions paid on the sale of mutual fund securities are recorded at cost and amortized on a straight-line basis over a maximum of three years. When redemptions occur, the actual investment period is shorter than expected, and the unamortized deferred sales commission related to the original investment in the funds is charged to net income and included in the amortization of deferred sales commissions.

**Intangible assets**

The useful life of an intangible asset is either finite or indefinite. Intangible assets other than goodwill are recognized when they are separable or arise from contractual or other legal rights, and have fair values that can be reliably measured.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment indicators at each reporting date, or more frequently if changes in circumstances indicate that the carrying value may be impaired. Intangible assets with finite lives are only tested for impairment if indicators of impairment exist at the time of an impairment

assessment. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense and any impairment losses on intangible assets with finite lives are recognized in the consolidated statements of operations.

Intangible assets with indefinite useful lives are not amortized, but are assessed for impairment indicators at each reporting date, or more frequently if changes in circumstances indicate that the carrying value may be impaired. In addition to impairment indicator assessments, indefinite life intangibles must be tested annually for impairment. The indefinite life of an intangible asset is reviewed annually to determine whether the indefinite life continues to be supportable. If no longer supportable, changes in useful life from indefinite to finite are made prospectively.

Any loss resulting from impairment of intangible assets is expensed in the period the impairment is identified. Any gain resulting from an impairment reversal of intangible assets is recognized in the period the impairment reversal is identified but cannot exceed the carrying amount that would have been determined (net of amortization and impairment) had no impairment loss been recognized for the intangible asset in prior periods.

**Business combinations and goodwill**

The purchase price of an acquisition accounted for under the acquisition method is allocated based on the fair values of the net identifiable assets acquired. The excess of the purchase price over the fair values of such identifiable net assets is recorded as goodwill.

Goodwill, which is measured at cost less any accumulated impairment losses, is not amortized, but rather, is assessed for impairment indicators at each reporting date, or more frequently if changes in circumstances indicate that the carrying value may be impaired. In addition to quarterly impairment indicator assessments, goodwill must be tested annually for impairment. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash generating units ("CGUs") that are expected to benefit from the acquisition. The recoverable amount of a CGU is compared to its carrying value plus any goodwill allocated to the CGU. If the recoverable amount of a CGU is less than its carrying value plus allocated goodwill, an impairment charge is recognized, first against the carrying value of the goodwill, with any remaining difference being applied against the carrying value of assets contained in the impacted CGUs. Impairment losses on goodwill are recorded in the consolidated statements of operations and cannot be subsequently reversed.

**Income taxes**

Income tax is comprised of current and deferred tax.

Income tax is recognized in the consolidated statements of operations except to the extent that it relates to items recognized directly in other comprehensive income or elsewhere in equity, in which case, the related taxes are also recognized in the consolidated statements of comprehensive income (loss) or elsewhere in equity.

Deferred taxes are recognized using the liability method for temporary differences that exist between the carrying amounts of assets and liabilities in the consolidated balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax assets and liabilities are determined based on the enacted or substantively enacted tax rates that are expected to apply when the differences related to the assets or liabilities reported for tax purposes are expected to reverse in the future. Deferred tax assets are recognized only when it is probable that sufficient taxable profits will be available or taxable temporary differences reversing in future periods against which deductible temporary differences may be utilized.

Deferred taxes liabilities are not recognized on the following temporary differences:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- Taxable temporary differences related to investments in subsidiaries, associates or joint ventures or joint operations to the extent they are controlled by the Company and they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

The Company records a provision for uncertain tax positions if it is probable that the Company will have to make a payment to tax authorities upon their examination of a tax position. This provision is measured at the Company's best estimate of the amount expected to be paid. Provisions are reversed to income in the period in which management assesses they are no longer required or determined by statute.

The measurement of tax assets and liabilities requires an assessment of the potential tax consequences of items that can only be resolved through agreement with the tax authorities. While the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred taxes.

### Share-based payments

The Company uses the fair value method to account for equity settled share-based payments with employees and directors. Compensation expense is determined using the Black‑Scholes option valuation model for stock options. Compensation expense for the share incentive program is determined based on the fair value of the benefit conferred on the employee. Compensation expense for deferred stock units ("DSU") is determined based on the value of the Company's common shares at the time of grant. Compensation expense for earn-out shares is determined using appropriate valuation models. Compensation expense for the Trust is determined based on the value of the Company's common shares purchased by the Trust as of the grant date. Compensation expense is recognized over the vesting period with a corresponding increase to contributed surplus other than for the Company's DSUs where the corresponding increase is to liabilities. Stock options and common shares held by the Trust vest in installments which require a graded vesting methodology to account for these share-based awards. On the exercise of stock options for shares, the contributed surplus previously recorded with respect to the exercised options and the consideration paid is credited to capital stock. On the issuance of the earn-out shares, the contributed surplus previously recorded with respect to the issued earn-out shares is credited to capital stock. On the vesting of common shares in the Trust, the contributed surplus previously recorded is credited to capital stock. On the exercise of DSUs, the liability previously recorded is credited to cash.

### Earnings per share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period.

The Company applies the treasury stock method to determine the dilutive impact, if any, of stock options and unvested shares purchased for the Trust. The treasury stock method determines the number of incremental common shares by assuming that the number of dilutive securities the Company has granted to employees have been issued.

### Foreign currency translation

Accounts in the financial statements of the Company's subsidiaries are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. The Company's performance is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is the functional currency of the Company. The Canadian dollar is also the functional currency of all its subsidiaries, with the exception of Global Companies, which uses the U.S. dollar as its functional currency. Accordingly, the assets and liabilities of Global Companies are translated into Canadian dollars using the rate in effect on the date of the consolidated balance sheets. Revenue and expenses are translated at the average rate over the reporting period. Foreign currency translation gains and losses arising from the Company's translation of its net investment in Global Companies, including goodwill and the identified intangible assets, are included in accumulated other comprehensive income or loss as a separate component within shareholders' equity until there has been a realized reduction in the value of the underlying investment.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to management. Management is responsible for allocating resources and assessing performance of the operating segments to make strategic decisions.

### Significant accounting judgments and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when these financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions and estimates as they occur.

*Impairment of goodwill and intangible assets*

All indefinite life intangible assets and goodwill are assessed for impairment, however, finite life intangibles are only tested for impairment to the extent indications of impairment exist at time of a quarterly assessment. In the case of goodwill and indefinite life intangibles, an annual test for impairment augments the quarterly impairment indicator assessments. Values associated with goodwill and intangibles involve estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These estimates require significant judgment regarding market growth rates, fund flow assumptions, expected margins and costs which could affect the Company's future results if estimates of future performance and fair value change.

*Impairment of energy sector assets*

By their nature, estimates of discovered and probable energy reserves, as they pertain to royalties and working interests, including the estimates of future energy prices, costs, related future cash flows and the selection of a post-tax discount rate relevant to the assets in question are all subject to measurement uncertainty.

*Fair value of financial instruments*

When the fair value of financial assets and financial liabilities recorded in the consolidated balance sheets cannot be derived from active markets, they are determined using valuation techniques and models. Model inputs are taken from observable markets where possible, but where this is not feasible, unobservable inputs may be used. The use of unobservable inputs can involve significant judgment and materially affect the reported fair value of financial instruments.

*Share-based payments*

The Company measures the cost of share-based payments to employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including (in the case of options grants) the expected life of the option, volatility, and dividend yields, (and in the case of performance-based equity grants), the probability of a subsidiary or executive attaining certain performance targets, the future stock price of the Company and the future employment of a senior employee.

*Deferred tax assets*

Deferred tax assets are recognized for unused tax losses to the extent it is probable that sufficient taxable profit will be generated in order to utilize the losses. In addition, taxable income is subject to estimation as a portion of performance fee revenue is an allocation of partnership income. Such allocations involve a certain degree of estimation and income tax estimates could change as a result of: (i) changes in tax laws and regulations, both domestic and foreign; (ii) an amendment to the calculation of partnership income allocation; or (iii) a change in foreign affiliate rules. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based on the likely timing and the level of future taxable profits together with future tax planning strategies.

*Provisions, including provisions for loan losses and debentures*

Due to the nature of provisions (both specific and collective loan loss assessments), a considerable part of their determination is based on estimates and judgments, including assumptions concerning the likelihood of future events occurring. The actual outcome of these uncertain events may be materially different from provisions recorded on the Company's financial statements. With regard to loan loss provisions and debenture impairments, management exercises judgment to determine whether indicators of loan or debenture impairment exist (on either a specific or collective basis), and if so, management must estimate the timing and amount of future cash flows from loans receivable and debentures.

*Investments in other entities*

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") and IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") provide for the use of judgment in determining whether an investee should be included within the consolidated financial statements of the Company and on what basis (subsidiary, joint venture or associate). Significant judgment is applied in evaluating facts and circumstances relevant to the Company and investee, including: (i) the extent of the Company's direct and indirect interests in the investee; (ii) the level of compensation to be received from the investee for management and other services provided to it; (iii) "kick out rights" available to other investors in the investee; and (iv) other indicators of the extent of power that the Company has over the investee.

**Future changes in accounting policies**

IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 was issued by the IASB on July 24, 2014 and will replace IAS 39 *Financial instruments: Recognition and Measurement*. IFRS 9 requires financial instrument classification and related measurement practices to be based primarily on an entity's business model objectives when managing those financial assets and on the extent to which contractual cash flows exist within the financial assets. The standard also introduces a new expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is evaluating the potential impact of this new standard on the financial statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. IFRS 15 will also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is evaluating the potential impact of this new standard on the financial statements.

## 3. PROPRIETARY INVESTMENTS AND OBLIGATIONS RELATED TO SECURITIES SOLD SHORT

Proprietary investments and obligations related to securities sold short consist of the following ($ in thousands):

| | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Public equities and share purchase warrants | 42,067 | 12,961 |
| Mutual funds and alternative investment strategies* | 83,327 | 106,814 |
| Fixed income securities | 2,802 | 2,520 |
| Private holdings** | 19,349 | 14,514 |
| **Total proprietary investments** | 147,545 | 136,809 |
| | | |
| **Obligations related to securities sold short*** ** | 29,810 | 40,191 |

* Investments in mutual funds and alternative investment strategies are primarily managed by SAM or RCIC. As at December 31, 2016, the underlying holdings in these mutual funds and alternative investment strategies primarily consisted of cash and short-term investments of $22.1 million (December 31, 2015 - $9.0 million), equities of $58.6 million (December 31, 2015 - $43.9 million), short equity positions of $18.2 million (December 31, 2015 - $49.8 million), fixed income securities of $9.8 million (December 31, 2015 - $59.9 million), bullion of $Nil (December 31, 2015 - $3.0 million), loans of $6.7 million (December 31, 2015 - $0.1 million) and derivatives of $0.5 million (December 31, 2015 - $0.2 million).

** Private holdings consist of the following investments: (1) private company investments classified as HFT and AFS. HFT investments have their changes in fair value recorded in the consolidated statements of operations. AFS investments have their changes in fair value recorded as part of the consolidated statements of comprehensive income until such time the asset is either disposed of, or is assessed as being impaired; (2) energy royalties of $2.6 million (December 31, 2015 - $3.2 million) which are based on the estimated future cash flows and expected return from future royalty payments; and (3) working interests in energy properties of $4.0 million (December 31, 2015 - $4.9 million) which are recorded at cost, net of depletion and/or impairment charges. As at December 31, 2016, the Company assessed the carrying amount of its working interest in energy properties and its energy royalties by considering changes in future prices, future costs and reserves and identified no indicators of impairment as at the end of the period.

*** On occasion, the Company may employ market-neutral investment strategies that involve an investment in our funds or other publicly listed entities and related securities short sales to hedge market risk. Currently, these strategies have employed $29.7 million (December 31, 2015 - $38.5 million) of long positions in investment strategies and $29.8 million (December 31, 2015 - $40.2 million) of short positions.

## 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following ($ in thousands):

| | Artwork | Furniture and fixtures | Computer hardware and software | Leasehold improvements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At December 31, 2014 | 2,045 | 2,989 | 2,156 | 7,882 | 15,072 |
| Additions | — | 217 | 179 | 469 | 865 |
| Net exchange differences | — | 90 | 77 | 64 | 231 |
| December 31, 2015 | 2,045 | 3,296 | 2,412 | 8,415 | 16,168 |
| Additions | 577 | 5 | 253 | 80 | 915 |
| Net exchange differences | — | (46) | (13) | (16) | (75) |
| December 31, 2016 | 2,622 | 3,255 | 2,652 | 8,479 | 17,008 |
| **Accumulated amortization** | | | | | |
| At December 31, 2014 | — | (2,725) | (2,151) | (3,926) | (8,802) |
| Charge for the year | — | (169) | (61) | (616) | (846) |
| Net exchange differences | — | (80) | (76) | (20) | (176) |
| December 31, 2015 | — | (2,974) | (2,288) | (4,562) | (9,824) |
| Charge for the year | — | (129) | (153) | (638) | (920) |
| Net exchange differences | — | 19 | 24 | 4 | 47 |
| December 31, 2016 | — | (3,084) | (2,417) | (5,196) | (10,697) |
| **Net book value at:** | | | | | |
| December 31, 2015 | 2,045 | 322 | 124 | 3,853 | 6,344 |
| December 31, 2016 | 2,622 | 171 | 235 | 3,283 | 6,311 |

## 5. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following ($ in thousands):

| | Goodwill | Fund management contracts - indefinite life | Fund management contracts - finite life | Carried interests | Deferred sales commissions | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At Dec. 31, 2014 | 155,435 | 16,987 | 26,931 | 38,184 | 8,026 | 245,563 |
| Net additions and (disposals) | — | (3,129) | — | 113 | 1,459 | (1,557) |
| Net exchange differences | 27,384 | — | 4,574 | 7,316 | — | 39,274 |
| At Dec. 31, 2015 | 182,819 | 13,858 | 31,505 | 45,613 | 9,485 | 283,280 |
| Net additions and (disposals) | — | — | 17,203 | — | 686 | 17,889 |
| Transfers* | — | (1,510) | 1,510 | — | — | — |
| Net exchange differences | (5,070) | — | (847) | (1,355) | — | (7,272) |
| At Dec. 31, 2016 | 177,749 | 12,348 | 49,371 | 44,258 | 10,171 | 293,897 |
| **Accumulated amortization and impairment losses** | | | | | | |
| At Dec. 31, 2014 | (105,008) | — | (16,411) | (36,068) | (5,459) | (162,946) |
| Amortization charge for the year | — | — | (3,712) | (168) | (1,670) | (5,550) |
| Net impairment charge for the year | (31,709) | (9,342) | (398) | (2,333) | — | (43,782) |
| Net exchange differences | (19,604) | — | (2,888) | (7,044) | — | (29,536) |
| At Dec. 31, 2015 | (156,321) | (9,342) | (23,409) | (45,613) | (7,129) | (241,814) |
| Amortization charge for the period | — | — | (4,941) | — | (1,560) | (6,501) |
| Net impairment charge for the period | — | (3,006) | — | — | — | (3,006) |
| Net exchange differences | 4,282 | — | 556 | 1,355 | — | 6,193 |
| At Dec. 31, 2016 | (152,039) | (12,348) | (27,794) | (44,258) | (8,689) | (245,128) |
| Net book value at: | | | | | | |
| Dec. 31, 2015 | 26,498 | 4,516 | 8,096 | — | 2,356 | 41,466 |
| Dec. 31, 2016 | 25,710 | — | 21,577 | — | 1,482 | 48,769 |

*During the first quarter, $1.5 million (2015: $Nil) of management contracts were reviewed and subsequently determined to have a change in estimated remaining useful life. Consequently, these management contracts were prospectively reclassified to the finite life category and the Company began amortizing the contracts over the remaining estimated useful life beginning in the first quarter.

*Impairment assessment of goodwill*

The Company identified six cash generating units ("CGU"s) for goodwill impairment assessment and testing purposes: SAM; Global; Lending; Corporate; Consulting; and SPW. Operating segments of the Company substantially align with the CGUs. A full description of our segments can be found in Note 14. As at December 31, 2016, the Company had allocated goodwill of $25.7 million (December 31, 2015 - $26.5 million) to the SAM CGU.

In the normal course, goodwill is tested for impairment once per annum, which for the Company is during the fourth quarter of each year. During the impairment testing process, there were no indicators of goodwill impairment in the SAM CGU.

*Impairment assessment of indefinite life fund management contracts*

In March 31, 2016, the Company determined that the recoverable amount of an indefinite life fund management contract within the SAM CGU was lower than its carrying value. Consequently, an impairment charge of $3.0 million was recorded in the first quarter (December 31, 2015 - $Nil) on the Impairment of intangibles line of the consolidated statements of operations. The recoverable amount of the contract was determined using a discounted cash flow value-in-use calculation that discounted relevant cash flows at approximately 15% (pre-tax). As at December 31, 2016, the Company had indefinite life fund management contracts (net of impairment and transfers described above) of $Nil within the SAM CGU (December 31, 2015 - $4.5 million).

*Impairment assessment of finite life fund management contracts*

As at December 31, 2016, the Company had fixed-term limited partnerships within the Global CGU of $2.9 million (December 31, 2015 - $8.1 million) and exchange listed funds within the SAM CGU of $18.7 million (December 31, 2015 - $Nil). There were no indicators of impairment as at December 31, 2016.

*Impairment assessment of deferred sales commissions*

As at December 31, 2016, the Company had deferred sales commissions of $1.5 million within the SAM CGU (December 31, 2015 - $2.4 million). There were no indicators of impairment as at December 31, 2016.

## 6. LOANS RECEIVABLE

*Components of loans receivable*

Loans receivable (which currently consist of resource loans and resource debentures) are reported at their amortized cost using the effective interest method, other than precious metal loans that are designated as FVTPL which are reported at fair value and included in resource loans. Resource loans are reported net of any general or specific loan loss provisions on the Loan loss provisions line of the consolidated statements of operations. Impairment of resource debentures are reported as part of the Gains (losses) on proprietary investments line of the consolidated statements of operations. Total carrying value consists of the following ($ in thousands):

| | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| **Resource loans** | | |
| Loan principal | 78,814 | 115,751 |
| Accrued interest* | 86 | 317 |
| Deferred revenue | (6,229) | (7,058) |
| Amortized cost, before loan loss provisions | 72,671 | 109,010 |
| Loan loss provisions* | (4,993) | (9,217) |
| Carrying value of resource loans receivable | 67,678 | 99,793 |
| Less: current portion | (11,631) | (52,191) |
| Total non-current resource loans receivable | 56,047 | 47,602 |
| **Resource debentures** | | |
| Debenture principal | — | 1,000 |
| Accrued interest | — | 9 |
| Amortized cost, before impairments | — | 1,009 |
| Impairments | — | — |
| Carrying value of resource debentures receivable | — | 1,009 |
| Less: current portion | — | (1,009) |
| Total non-current resource debentures receivable | — | — |
| **Total carrying value of loans receivable** | 67,678 | 100,802 |
| Less: current portion | (11,631) | (53,200) |
| **Total carrying value of non-current loans receivable** | 56,047 | 47,602 |

*Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current period.

*Impaired loans, debentures and loan loss provisions*

When a loan or debenture is classified as impaired, the original expected timing and amount of future cash flows may be revised to reflect new circumstances. These revised cash flows are discounted using the original effective interest rate to determine the net realizable value of the loan or debenture. Interest income is thereafter recognized on this net realizable value using the effective interest rate. Additional changes to the amount or timing of future cash flows could result in further losses, or the reversal of previous losses, which would also impact the amount of subsequent interest income recognized.

As at December 31, 2016, the Company performed a comprehensive review of each loan and debenture measured at amortized cost in its portfolio to determine the requirement for specific loan loss provisions and debenture impairment charges. There were no credit loss events in the quarter, however, given the IFRS requirement to continue accruing non-cash interest on previously impaired loans via the effective interest rate method of accounting, the Company is required to accrue such interest and take a corresponding provision against the accrued interest amount. In this context, specific loan loss provisions of $0.9 million were recorded on a year ended basis, compared to $8.0 million in the prior period.

During the quarter, the Company completed its quarterly assesement of credit risk in the portfolio. This led to the reversal of the $1.2 million general loan loss provision.

Interest income on impaired loans and debentures and the changes in loan loss provision and impairment are as follows ($ in thousands):

| | *For the years ended* Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| **Interest on impaired loans and debentures** | 941 | 266 |
| **Loan loss provisions and impairments** | | |
| Balance, beginning of the year | 9,217 | 3,001 |
| Recovery of resource debenture | — | (1,746) |
| Write-off of resource loans | (3,866) | — |
| Disposal of resource debenture | — | (501) |
| Disposal of real estate loans | — | (754) |
| General loan loss provision (recovery) | (1,200) | 1,200 |
| Specific loan loss provision on resource loan | 941 | 8,017 |
| Net exchange differences | (99) | — |
| **Balance, end of period** | 4,993 | 9,217 |

*Sector distribution of loan principal*

The following table summarizes the distribution of all of the Company's outstanding loan principal balances by sector:

| | Dec. 31, 2016 | | Dec. 31, 2015 | |
|---|---|---|---|---|
| | Number of Loans | ($ in thousands) | Number of Loans | ($ in thousands) |
| **Resource loans** | | | | |
| Metals and mining | 5 | 38,514 | 7 | 54,810 |
| Energy and other | 4 | 40,300 | 7 | 60,941 |
| **Total resource loans principal** | 9 | 78,814 | 14 | 115,751 |
| **Resource debentures** | | | | |
| Energy and other | — | — | 1 | 1,000 |
| **Total resource debentures principal** | — | — | 1 | 1,000 |
| **Total loan principal** | 9 | 78,814 | 15 | 116,751 |

*Geographic distribution of loan principal*

The following table summarizes the distribution of all of the Company's outstanding loan principal balances by geographic location of the underlying security:

| | Dec. 31, 2016 | | Dec. 31, 2015 | |
|---|---|---|---|---|
| | Number of Loans | ($ in thousands) | Number of Loans | ($ in thousands) |
| **Resource loans** | | | | |
| Canada | 2 | 24,765 | 5 | 31,711 |
| United States of America | 2 | 32,446 | 2 | 36,588 |
| Mexico | — | — | 2 | 12,607 |
| Chile | 1 | 4,363 | 1 | 6,919 |
| Brazil | 1 | 964 | 1 | 2,733 |
| Peru | 1 | 1,880 | 1 | 1,937 |
| Romania | 1 | 2,275 | 1 | 2,500 |
| South Africa | 1 | 12,121 | 1 | 20,756 |
| **Total resource loan principal** | 9 | 78,814 | 14 | 115,751 |
| **Resource debentures** | | | | |
| Canada | — | — | 1 | 1,000 |
| **Total resource debenture principal** | — | — | 1 | 1,000 |
| **Total loan principal** | 9 | 78,814 | 15 | 116,751 |

*Priority of security charges*

All of the Company's loans and debentures are senior secured (December 31, 2015 - 2 resource loans were second secured but have been repaid).

*Past due loans that are not impaired*

Loans are considered past due once the borrower has failed to make payments within 30 days of the contractual due date. As at December 31, 2016 and December 31, 2015, no loans were past due.

*Loan commitments*

As at December 31, 2016, the Company had no loan commitments (December 31, 2015 - $29.3 million).

## 7. OTHER ASSETS, INCOME AND EXPENSES

*Other Assets*

Other assets (both current and long term) consist primarily of: (1) $2.8 million (December 31, 2015 - $4.0 million) in proceeds receivable on the past sale of an investment; (2) receivables of $4.6 million (December 31, 2015 - $1.6 million) from funds and managed companies for which the Company has incurred expenses on their behalf; (3) Prepaid expenses of $1.5 million (December 31, 2015 - $1.6 million); and (4) royalties and other income receivable of $1.0 million (December 31, 2015 - $0.8 million) on energy assets held in our proprietary investments.

Deferred costs of $11.0 million from December 31, 2015 were reclassified to the finite life fund management contracts category within the SAM CGU subsequent to the successful closing of the exchange offer with Central GoldTrust on January 15, 2016.

A $3.5 million non-interest bearing related party demand note between the Company and Sprott Continental Holding Limited, a company controlled by Eric Sprott, which was outstanding at December 31, 2015 was repaid in full in January 2016.

*Other Income*

Other income primarily includes: (1) foreign exchange losses of $3.5 million (December 31, 2015 - $17.0 million gain); (2) royalty income on energy related assets held in proprietary investments of $1.8 million (December 31, 2015 - $3.9 million); (3) income earned on other investments of $4.1 million (December 31, 2015 - $2.4 million); and (4) accretion income of $1.6 million on a share receivable (December 31, 2015 - $Nil).

*Other Expenses*

Other expenses primarily include (1) costs related to energy assets including: (a) operating expenses of $1.2 million (December 31, 2015 - $1.9 million); (b) depletion charges of $1.0 million (December 31, 2015 - $2.7 million); and (c) impairement charges of $nil (December 31, 2015 - $3.3 million) and (2) non-recurring expenses of $0.9 million incurred in our Global and SAM segments (December 31, 2015 - $Nil).

## 8. SHAREHOLDERS' EQUITY

*Capital stock and contributed surplus*

The authorized and issued share capital of the Company consists of an unlimited number of common shares, without par value.

| | Number of shares | Stated value ($ in thousands) |
|---|---|---|
| At Dec. 31, 2014 | 246,021,326 | 414,668 |
| Additional purchase consideration | 136,064 | 543 |
| Issuance of share capital on conversion of RSU | 1,400 | 4 |
| Acquired for equity incentive plan | (3,119,030) | (7,750) |
| Released on vesting of equity incentive plan | 956,845 | 4,879 |
| At Dec. 31, 2015 | 243,996,605 | 412,344 |
| Issuance of share capital under dividend reinvestment program | 10,262 | 26 |
| Acquired for equity incentive plan | (1,850,000) | (4,473) |
| Released on vesting of equity incentive plan | 1,033,426 | 3,334 |
| At Dec. 31, 2016 | 243,190,293 | 411,231 |

Contributed surplus consists of: stock option expense; earn-out shares expense; equity incentive plans' expense; and additional purchase consideration.

| | Stated value ($ in thousands) |
|---|---|
| At Dec. 31, 2014 | 42,199 |
| Expensing of EPSP / EIP shares over the vesting period | 3,122 |
| Expensing of earn-out shares over the vesting period | (1,146) |
| Issuance of share capital on share-based consideration | (543) |
| Issuance of share capital on conversion of RSU | (4) |
| Released on vesting of common shares for equity incentive plan | (4,879) |
| At Dec. 31, 2015 | 38,749 |
| Expensing of Sprott Inc. stock options over the vesting period | 2,477 |
| Expensing of EPSP / EIP shares over the vesting period | 3,910 |
| Released on vesting of common shares for equity incentive plan | (3,334) |
| At Dec. 31, 2016 | 41,802 |

*Stock option plan*

The Company has an option plan (the "Plan") intended to provide incentives to directors, officers, employees and consultants of the Company and its wholly owned subsidiaries. The aggregate number of shares issuable upon the exercise of all options granted under the Plan and under all other stock-based compensation arrangements including the Trust and Equity Incentive Plan ("EIP") cannot exceed 10% of the issued and outstanding shares of the Company as at the date of grant. The options may be granted at a price that is not less than the market price of the Company's common shares at the time of grant. The options vest annually over a three-year period and may be exercised during a period not to exceed 10 years from the date of grant.

A total of 8,250,000 options were issued during the year ended December 31, 2016 (December 31, 2015 - Nil).

For valuing share option grants, the fair value method of accounting is used. The fair value of option grants is determined using the Black-Scholes option-pricing model, which takes into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Compensation cost is recognized over the three-year vesting period, assuming an estimated forfeiture rate, with an offset to contributed surplus. When exercised, amounts originally recorded against contributed surplus as well as any consideration paid by the option holder is credited to capital stock.

A summary of the changes in the Plan is as follows:

| | Number of options (in thousands) | Weighted average exercise price ($) |
|---|---|---|
| Options outstanding, December 31, 2014 | 2,650 | 9.71 |
| Options exercisable, December 31, 2014 | 2,650 | 9.71 |
| Options outstanding, December 31, 2015 | 2,650 | 9.71 |
| Options exercisable, December 31, 2015 | 2,650 | 9.71 |
| Options granted | 7,250 | 2.33 |
| Options granted | 1,000 | 2.73 |
| Options outstanding, December 31, 2016 | 10,900 | 4.16 |
| Options exercisable, December 31, 2016 | 4,100 | 7.10 |

Options outstanding and exercisable as at December 31, 2016 are as follows:

| Exercise price ($) | Number of outstanding options (in thousands) | Weighted average remaining contractual life (years) | Number of options exercisable (in thousands) |
|---|---|---|---|
| 10.00 | 2,450 | 1.3 | 2,450 |
| 4.85 | 50 | 3.0 | 50 |
| 6.60 | 150 | 3.9 | 150 |
| 2.33 | 7,250 | 9.1 | 1,450 |
| 2.73 | 1,000 | 9.4 | — |
| 2.33 to 10.00 | 10,900 | 7.3 | 4,100 |

*Equity incentive plan*

For employees in Canada, the Trust has been established and the Company will fund the Trust with cash, which will be used by the trustee to purchase: (1) on the open market, common shares of the Company that will be held in the Trust until the awards vest and are distributed to eligible members; or (2) from treasury, common shares of the Company that will be held in the Trust until the awards vest and are distributed to eligible employees; and (3) from time-to-time, purchases from 2176423 Ontario Ltd., a company controlled by Eric Sprott, pursuant to the terms and conditions of a previously announced share transaction. For employees in the U.S. under the EIP plan, the Company will allot common shares of the Company as either: (1) restricted stock; (2) unrestricted stock; or (3) restricted stock units ("RSUs"), the resulting common shares of which will be issued from treasury.

A total of 258,389 RSUs were issued during the year ended December 31, 2016 (December 31, 2015 - Nil). The Trust purchased 1.85 million common shares for the year ended ended December 31, 2016 (December 31, 2015 - 3.1 million).

| | Number of common shares |
|---|---|
| Common shares held by the Trust, December 31, 2014 | 2,308,993 |
| Acquired | 3,119,030 |
| Released on vesting | (956,845) |
| Unvested common shares held by the Trust, December 31, 2015 | 4,471,178 |
| Acquired | 1,850,000 |
| Released on vesting | (1,033,426) |
| Unvested common shares held by the Trust, December 31, 2016 | 5,287,752 |

*Earn-out shares*

In connection with the acquisition of Sprott Toscana, up to an additional 0.1 million common shares of the Company were issued with the achievement of certain earnings targets by Sprott Toscana. In accordance with IFRS 2 *Share-based Payment* ("IFRS 2"), this potential award carries a service condition with a market performance condition of equal term. As a result, the accounting guidance under IFRS 2 required the Company to initially estimate the number of equity instruments expected to ultimately vest and to assess the fair value of the equity instrument on the grant date. The fair value for each equity instrument was determined using an acceptable valuation model that utilized several significant assumptions including the probability of future dividends, options pricing and discounts for lock-up restrictions. In addition, the valuation model contemplated cash flow assumptions related to future AUM levels and cumulative earnings. The fair value of this share-based award was charged to the consolidated statements of operation over the period of the service condition, being 3 years and was adjusted each reporting period to reflect the best available estimate of the number of equity instruments expected to ultimately vest. Upon issuance of the common shares, the amount equal to the fair value of the shares at the

maturity date of the transaction, originally recorded against contributed surplus, was credited to capital stock. On August 18, 2015, 136,064 common shares of the Company were issued to employees of Sprott Toscana.

The table below provides a breakdown of the share-based compensation expense and the corresponding increase to contributed surplus:

| | *For the years ended* | |
|---|---|---|
| | Dec. 31, 2016 | Dec. 31, 2015 |
| Earn-out shares | — | (1,146) |
| Stock option plan | 2,477 | — |
| EPSP / EIP | 3,910 | 3,122 |
| | 6,387 | 1,976 |

*Basic and diluted earnings per share*

The following table presents the calculation of basic and diluted earnings (loss) per common share:

| | *For the years ended* | |
|---|---|---|
| | Dec. 31, 2016 | Dec. 31, 2015 |
| Numerator ($ in thousands): | | |
| Net income (loss) - basic and diluted | 31,538 | (39,631) |
| Denominator (Number of shares in thousands): | | |
| Weighted average number of common shares | 247,528 | 247,401 |
| Weighted average number of unvested shares purchased by the Trust | (4,167) | (2,149) |
| Weighted average number of common shares - basic | 243,361 | 245,252 |
| Weighted average number of unvested shares purchased by the Trust | 4,167 | — |
| Weighted average number of common shares - diluted | 247,528 | 245,252 |
| Net income (loss) per common share | | |
| Basic | 0.13 | (0.16) |
| Diluted | 0.13 | (0.16) |

*Capital management*

The Company's objectives when managing capital are:

- to meet regulatory requirements and other contractual obligations;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders;
- to provide financial flexibility to fund possible acquisitions;
- to provide adequate seed capital for the Company's new product offerings; and
- to provide an adequate return to shareholders through growth in assets under management, growth in management fees and performance fees and return on the Company's invested capital that will result in dividend payments to shareholders.

The Company's capital is comprised of equity, including capital stock, contributed surplus, retained earnings (deficit) and accumulated other comprehensive income (loss). SPW is a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), SAM is a registrant of the Ontario Securities Commission ("OSC") and the U.S. Securities and Exchange Commission ("SEC"), SAM US is registered with the SEC and SGRIL is a member of the Financial Industry Regulatory Authority ("FINRA"). As a result, all of these entities are required to maintain a minimum level of regulatory capital. To ensure compliance, management monitors regulatory and working capital on a regular basis. As at December 31, 2016 and 2015, all entities were in compliance with their respective capital requirements.

## 9. INCOME TAXES

The major components of income tax expense are as follows ($ in thousands):

| | *For the years ended* | |
|---|---|---|
| | Dec. 31, 2016 | Dec. 31, 2015 |
| *Current income tax expense* | | |
| Based on taxable income of the current period | 12,846 | 5,919 |
| Other | 88 | 334 |
| | 12,934 | 6,253 |
| *Deferred income tax expense (recovery)* | | |
| Total deferred income tax expense | — | 2,400 |
| Total deferred income tax recovery | (6,629) | — |
| | (6,629) | 2,400 |
| Income tax expense reported in the statements of operations | 6,305 | 8,653 |

Taxes calculated on Company earnings differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings of the Company as follows ($ in thousands):

| | *For the years ended* | |
|---|---|---|
| | Dec. 31, 2016 | Dec. 31, 2015 |
| Income before income taxes | 37,843 | (30,978) |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 10,251 | (12,973) |
| Tax effects of: | | |
| Non-deductible stock-based compensation | 942 | — |
| Non-taxable capital (gains) and losses | (2,704) | 519 |
| Capital losses not benefited | 201 | 2,216 |
| Goodwill/Intangible impairment | 468 | 12,154 |
| Adjustments in respect of previous periods | 144 | 645 |
| Other temporary differences not benefited | (480) | 10,046 |
| Non-capital losses not previously benefited | (2,800) | (3,311) |
| Rate differences and other | 283 | (643) |
| Tax charge | 6,305 | 8,653 |

The weighted average statutory tax rate was 27.1% (December 31, 2015 - 41.9%). This decrease was mainly due to increased profitability of our Canadian operations, which are subject to a lower tax rate than the Global segment, which is U.S. based. The company has $37 million of unused non-capital tax losses and $13 million of unused capital tax losses from prior years that begin to expire in 2033 and 2019, respectively. The benefit of these capital and non-capital tax losses has not been recognized.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose. The movement in significant components of the Company's deferred income tax assets and liabilities is as follows ($ in thousands):

*For the year ended December 31, 2016*

| | Dec. 31, 2015 | Recognized in income | Recognized in other comprehensive income | Dec. 31, 2016 |
|---|---|---|---|---|
| **Deferred income tax assets** | | | | |
| Other stock-based compensation | 3,721 | 502 | — | 4,223 |
| Non-capital losses | 190 | 363 | — | 553 |
| Other | 282 | 289 | — | 571 |
| **Total deferred income tax assets** | 4,193 | 1,154 | — | 5,347 |
| **Deferred income tax liabilities** | | | | |
| Fund management contracts | 3,700 | (1,542) | (119) | 2,039 |
| Deferred sales commissions | 624 | (232) | — | 392 |
| Unrealized gains | 4 | 182 | — | 186 |
| Transitional partnership income | 3,680 | (3,680) | — | — |
| Proceeds receivable | 1,396 | (403) | — | 993 |
| Other | (127) | 200 | — | 73 |
| **Total deferred income tax liabilities** | 9,277 | (5,475) | (119) | 3,683 |
| **Net deferred income tax assets (liabilities)** | (5,084) | 6,629 | 119 | 1,664 |

*For the year ended December 31, 2015*

| | Dec. 31, 2014 | Recognized in income | Recognized in other comprehensive income | Dec. 31, 2015 |
|---|---|---|---|---|
| **Deferred income tax assets** | | | | |
| Unrealized losses | 8,835 | (10,179) | 1,344 | — |
| Other stock-based compensation | 3,663 | 70 | (12) | 3,721 |
| Non-capital losses | 1,174 | (984) | — | 190 |
| Other | 1,633 | (1,302) | (49) | 282 |
| **Total deferred income tax assets** | 15,305 | (12,395) | 1,283 | 4,193 |
| **Deferred income tax liabilities** | | | | |
| Fund management contracts | 7,890 | (4,879) | 689 | 3,700 |
| Deferred sales commissions | 680 | (56) | — | 624 |
| Unrealized gains | 625 | (621) | — | 4 |
| Transitional partnership income | 6,624 | (2,944) | — | 3,680 |
| Proceeds receivable | 1,396 | — | — | 1,396 |
| Other | 1,368 | (1,495) | — | (127) |
| **Total deferred income tax liabilities** | 18,583 | (9,995) | 689 | 9,277 |
| **Net deferred income tax assets (liabilities)** | (3,278) | (2,400) | 594 | (5,084) |

## 10. FAIR VALUE MEASUREMENTS

The following tables present the Company's recurring fair value measurements within the fair value hierarchy. The Company did not have non-recurring fair value measurements as at December 31, 2016 and December 31, 2015 ($ in thousands).

| Dec. 31, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Public equities and share purchase warrants | 36,842 | 5,225 | — | 42,067 |
| Mutual funds and alternative investment strategies | 44,774 | 38,554 | — | 83,328 |
| Fixed income securities | — | 1,538 | 1,264 | 2,802 |
| Private holdings* | — | — | 15,395 | 15,395 |
| Obligations related to securities sold short | (29,810) | — | — | (29,810) |
| Total net recurring fair value measurements | 51,806 | 45,317 | 16,659 | 113,782 |

| Dec. 31, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Public equities and share purchase warrants | 9,758 | 3,203 | — | 12,961 |
| Mutual funds and alternative investment strategies | 66,599 | 40,215 | — | 106,814 |
| Fixed income securities | — | 1,254 | 1,266 | 2,520 |
| Private holdings* | — | — | 9,652 | 9,652 |
| Obligations related to securities sold short | (40,191) | — | — | (40,191) |
| Total net recurring fair value measurements: | 36,166 | 44,672 | 10,918 | 91,756 |

* Private holdings measured using fair value techniques include private company investments classified as HFT and foreclosed properties, which have their changes in fair value recorded on the statements of operations; and private holdings and energy royalties classified as AFS investments, which have their changes in fair value recorded as part of other comprehensive income.

The following tables provides a summary of changes in the fair value of Level 3 financial assets ($ in thousands):

Changes in the fair value of Level 3 measurements - Dec. 31, 2016

| | Dec. 31, 2015 | Purchases and reclassifications | Settlements | Net unrealized gains (losses) included in net income | Net realized gains (losses) included in net income | Net realized gains (losses) included in other income | Net realized gains (losses) included in interest income | Dec. 31, 2016 |
|---|---|---|---|---|---|---|---|---|
| Private holdings | 9,652 | 9,345 | (4,898) | 1,296 | — | — | — | 15,395 |
| Fixed income securities | 1,266 | — | — | (2) | — | — | — | 1,264 |
| | 10,918 | 9,345 | (4,898) | 1,294 | — | — | — | 16,659 |

Changes in the fair value of Level 3 measurements - Dec. 31, 2015

| | Dec. 31, 2014 | Purchases and reclassifications | Settlements | Net unrealized gains (losses) included in net income | Net realized gains (losses) included in net income | Net realized gains (losses) included in other income | Net realized gains (losses) included in interest income | Dec. 31, 2015 |
|---|---|---|---|---|---|---|---|---|
| Private holdings | 9,280 | 4,385 | (1,282) | (2,731) | — | — | — | 9,652 |
| Precious metal loans | 5,662 | — | (5,854) | — | 377 | 248 | (433) | — |
| Fixed income securities | 981 | 286 | — | (1) | — | — | — | 1,266 |
| | 15,923 | 4,671 | (7,136) | (2,732) | 377 | 248 | (433) | 10,918 |

During the year ended December 31, 2016, the Company transferred public equities of $1.0 million (Dec. 31, 2015 - $Nil) from Level 2 to Level 1 within the fair value hierarchy due to the release of trading restrictions by the issuer.

The following table presents the valuation techniques used by the Company in measuring Level 2 fair values:

| Type | Valuation Technique |
|---|---|
| Public equities and share purchase warrants | Fair values are determined using pricing models which incorporate market-observable inputs. |
| Mutual funds and alternative investment strategies | Fair values are based on the last available Net Asset Value. |
| Fixed income securities | Fair values are based on independent market data providers or third-party broker quotes. |

### Financial instruments not carried at fair value

For fees receivable, other assets, accounts payable and accrued liabilities and compensation payable, the carrying amount represents a reasonable approximation of fair value due to their short term maturity.

Loans receivable and debentures had a carrying value of $67.7 million (Dec. 31, 2015 - $100.8 million) and a fair value of $74.1 million (Dec. 31, 2015 - $100.2 million). Loans receivable and debentures lack an available trading market, are not typically exchanged, and have been recorded at amortized cost less impairment. The fair value of resource loans and debentures are measured based on changes in the market price of comparable bonds since the average date that the loans were originated. The Company adjusts the fair value to take into account any significant changes in credit risks using observable market inputs in determining counterparty credit risk. The fair value of loans are not necessarily representative of the amounts realizable upon immediate settlement. The significant inputs used to disclose the fair value of loans and debentures measured at amortized cost would fall under Level 3 of the fair value hierarchy.

## 11. RELATED PARTY TRANSACTIONS

The remuneration of directors and other key management personnel of the Company for employment services rendered are as follows ($ in thousands):

| | *For the years ended* | |
|---|---|---|
| | Dec. 31, 2016 | Dec. 31, 2015 |
| Fixed salaries and benefits | 4,560 | 5,234 |
| Variable incentive-based compensation | 5,583 | 3,822 |
| Termination benefits | — | 1,083 |
| Share-based compensation | 8,511 | 1,380 |
| | 18,654 | 11,519 |

The deferred stock unit ("DSU") plan for independent directors of the Company vests annually over a three-year period and may only be settled in cash upon retirement. DSU's issued in lieu of directors' fees and dividends vest immediately. There were 137,300 DSUs issued during the year (December 31, 2015 - 226,393). DSU expense is included in "compensation and benefits" line in the consolidated statements of operations and is recognized over the three-year vesting period with an offset to accrued liabilities.

As at December 31, 2015, there was a receivable of a $3.5 million included in Other Assets. This non-interest bearing related party demand note between the Company and Sprott Continental Holdings Limited, a company controlled by Eric Sprott, was paid in full in January 2016.

On December 24, 2015, Sprott Inc. 2011 Employee Profit Sharing Trust purchased 1,643,192 shares for the total price of $3.5 million from 2176432 Ontario Ltd., a company controlled by Eric Sprott. The fair value of the shares was based on the price equal to the five-day weighted average trading price as of the day before the date of execution.

On November 11, 2014, the Company entered into an agreement to provide a loan facility to Sprott Resource Corp ("SRC") in the amount of $20 million at 7% for the first 12 months and at 8% interest thereafter. On September 29, 2015, the Company amended the agreement and reduced the facility amount to $18 million. As at December 31, 2015, the Company had $13.6 million loan receivable from SRC on the credit facility. This was subsequently increased to $17.5 million and fully repaid on October 13, 2016.

## 12. DIVIDENDS

The following dividends were declared by the Company during the year ended December 31, 2016:

| Record date | Payment Date | Cash dividend per share ($) | Total dividend amount ($ in thousands) |
|---|---|---|---|
| November 21, 2016 - regular dividend Q3 - 2016 | December 6, 2016 | 0.03 | 7,454 |
| August 23, 2016 - regular dividend Q2 - 2016 | September 6, 2016 | 0.03 | 7,454 |
| May 25, 2016 - regular dividend Q1 - 2016 | June 8, 2016 | 0.03 | 7,454 |
| March 22, 2016 - regular dividend Q4 - 2015 | April 5, 2016 | 0.03 | 7,384 |
| Dividends (1) | | | 29,746 |

(1) Subsequent to the year end, on March 1, 2017, a regular dividend of $0.03 per common share was declared for the quarter ended December 31, 2016. This dividend is payable on March 27, 2017 to shareholders of record at the close of business on March 10, 2017.

## 13. RISK MANAGEMENT ACTIVITIES

The Company's exposure to market, credit, liquidity and concentration risk is described below:

(a) Market risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates, foreign exchange rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in a change in the fair value of an asset. The Company's financial instruments are classified as HFT, designated as FVTPL, HTM, AFS, or as loans and receivables. Therefore, certain changes in fair value or permanent impairment, if any, affect reported earnings as they occur. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Company manages market risk through regular monitoring of its proprietary investments and loans receivable. The Company separates market risk into three categories: price risk, interest rate risk and foreign currency risk.

*Price risk*

Price risk arises from the possibility that changes in the price of the Company's proprietary investments will result in changes in carrying value. If the market values of proprietary investments classified as HFT increased or decreased by 5%, with all other variables held constant, this would have resulted in an increase or decrease in net income of approximately $5.6 million for the year (December 31, 2015 - $4.2 million). For more details about the Company's proprietary investments, refer to Note 3.

The Company's revenues are also exposed to price risk since management fees, performance fees and carried interests are correlated with assets under management, which fluctuates with changes in the market values of the assets in the funds and managed accounts managed by SAM, SC, Sprott Toscana, RCIC and SAM US.

Commodity price risk refers to uncertainty of future market values caused by a fluctuation in the price of a commodity. The Company may, from time to time: (i) hold certain investments linked to the market prices of precious metals or energy assets; and (ii) enter into certain precious metal loans, where the repayment is notionally tied to a specific commodity spot price at the time of the loan and downward changes to the price of the commodity can reduce the value of the loan and the amounts ultimately repaid to the Company.

As at December 31, 2016 and 2015 the Company did not hold any precious metal loans and was not exposed to price risk as the fair value of these loans is dependent on future gold prices.

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will adversely affect the value of, or cash flows from, financial instrument assets. The Company’s earnings, particularly through its SRLC segment, are exposed to volatility as a result of sudden changes in interest rates. As a mitigating factor, the Company from time-to-time sets minimum interest rates or an interest rate floor in its variable rate loans. As at December 31, 2016 the Company's loan portfolio consisted of both fixed-rate and floating-rate loans. The Company is also exposed to changes in the value of a loan when that loan’s interest rate is at a rate other than current market rates.

As at December 31, 2016, the Company had 8 fixed-rate resource-based loans and 1 floating-rate resource-based loan (December 31, 2015 - 14 fixed-rate loans and 1 fixed-rate debenture) with an aggregate carrying value of $67.7 million (December 31, 2015 - $100.8 million). The Company's 9 resource loans range in maturity dates from less than 6 months to 3 years.

*Foreign currency risk*

Foreign currency risk arises from foreign exchange rate movements that could negatively impact either the carrying value of financial assets and liabilities or the related cash flows when translating those balances into Canadian dollars. The Company's primary foreign currency is the United States dollar ("USD"). The Company may employ certain hedging strategies to mitigate foreign currency risk.

The Global Companies' assets are all denominated in USD with their translation impact being reported as part of other comprehensive income in the financial statements. Excluding the impact of the Global Companies, as at December 31, 2016, approximately $66.0 million (December 31, 2015 - $32.2 million) of total Canadian assets were invested in proprietary investments priced in USD. A total of $50.9 million (December 31, 2015 - $55.6 million) of cash, $4.5 million (December 31, 2015 -$0.4 million) of accounts receivable, $60.1 million (December 31, 2015 - $70.8 million) of loans receivable and $1.2 million (December 31, 2015 - $1.1 million) of other assets were denominated in USD. As at December 31, 2016, if the exchange rate between USD and the Canadian dollar increased or decreased by 5%, with all other variables held constant, the increase or decrease in net income would have been approximately $7.5 million for the year (December 31, 2015 - $6.6 million).

(b) Credit risk

Credit risk is the risk that a borrower will not honour its commitments and a loss to the Company may result.

*Loans receivable*

The Company incurs credit risk primarily in the loan portfolio of SRLC. In addition to the relative default probability of SRLC borrowers, credit risk is also dependent on loss given default, which can increase credit risk if the values of the underlying assets securing the Company's loans decline to levels approaching or below the loan amounts. A decrease in real estate values or commodity or energy prices may delay the development of the underlying security or business plans of the borrower and will adversely affect the value of the Company's security. Additionally, the value of the Company's underlying security in a resource loan and resource debenture can be negatively affected if the actual amount or quality of the commodity proves to be less than that estimated, or the ability to extract the commodity proves to be more difficult or more costly than estimated. During the resource loan and resource debenture origination process, management takes into account a number of factors and is committed to several processes to ensure that this risk is appropriately mitigated. These include:

- emphasis on first priority and/or secured financings;
- the investigation of the creditworthiness of borrowers;
- the employment of qualified and experienced loan professionals;
- a review of the sufficiency of the borrower's business plans including plans that will enhance the value of the underlying security;
- frequent and documented status updates provided on business plans;
- engagement of qualified independent advisors (e.g. lawyers, engineers and geologists) to protect Company interests;
- legal reviews that are performed to ensure that all due diligence requirements are met prior to funding.

As at December 31, 2016, the Company's net exposure to on-balance sheet credit risk (net loans receivable) was $67.7 million (December 31, 2015 - $100.8 million) and the Company had no exposure to off-balance sheet credit risk (loan commitments) (December 31, 2015 - $29.3 million). As at December 31, 2016, the largest loan in the Company's loan portfolio was a resource loan with a carrying value of $21.9 million or 32.3% of the Company's loans receivable (December 31, 2015 - $22.6 million or 22.4% of the Company's loans receivable). The Company will syndicate loans in certain circumstances if it wishes to reduce its exposure to a borrower or comply with loan

exposure maximums. The Company reviews its policies regarding its lending limits on an ongoing basis. For precious metal loans, the Company performs the same due diligence procedures as it would for its resource loans and resource debentures.

*Collectability of loans*

Besides the above noted measures we take to manage credit risk, the Company will report on credit risk in the notes to the annual financial statements and records loan loss provisions (both specific and general) to ensure the loans are recorded at their estimated recoverable amount (i.e. net of impairment risk we believe to exist as at the balance sheet date and in accordance with IFRS). Actual losses incurred in the loan portfolio could differ materially from our provisions.

*Proprietary investments*

The Company incurs credit risk when entering into, settling and financing various proprietary transactions. As at December 31, 2016 and 2015, the Company's most significant proprietary investments counterparty was National Bank Correspondent Network Inc. ("NBCN"), the carrying broker of SPW, which also acts as a custodian for most of the Company's proprietary investments. NBCN is registered as an investment dealer subject to regulation by IIROC; as a result, it is required to maintain minimum levels of regulatory capital at all times.

*Other*

The majority of accounts receivable relate to management and performance fees receivable from the Funds, managed accounts and managed companies managed by the Company. Credit risk is managed in this regard by dealing with counterparties that the Company believes to be creditworthy and by actively monitoring credit exposure and the financial health of the counterparties.

The Global Companies incur credit risk when entering into, settling and financing various proprietary transactions. As at December 31, 2016 and 2015, the Global Companies' most significant counterparty was RBC Capital Markets LLC ("RBCCM"), the carrying broker of SGRIL and custodian of the net assets of the Funds managed by RCIC. RBCCM is registered as a broker-dealer and registered investment advisor subject to regulation by FINRA and the SEC; as a result, it is required to maintain minimal levels of regulatory capital at all times.

(c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due.

The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. Additionally, the Company has access to a $35 million committed line of credit with its primary lender. As part of its cash management program, the Company primarily invests in short-term debt securities issued by the Government of Canada with maturities of less than three months. As at December 31, 2016, the Company had $124.0 million or 28.2% (December 31, 2015 - $107.6 million or 24.8%) of its total assets in cash and cash equivalents. In addition, approximately $82.5 million or 70.1% (December 31, 2015 - $66.2 million or 68.5%) of proprietary investments held by the Company are readily marketable and are recorded at their fair value.

The Company's exposure to liquidity risk as it relates to loans receivable arises from fluctuations in cash flows from making loan advances and receiving loan repayments. The Company manages its loan commitment liquidity risk through the ongoing monitoring of scheduled loan fundings and repayments. As at December 31, 2016, the Company had no loan funding commitments and $35.5 million in investment funding commitments (December 31, 2015 - $29.3 million and $nil respectively). Financial liabilities, including accounts payable and accrued liabilities and compensation and employee bonuses payable, are short-term in nature and are generally due within a year.

The Company's management team is responsible for reviewing resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. The Company manages liquidity risk by monitoring cash balances on a daily basis. To meet any liquidity shortfalls, actions taken by the Company could include: syndicating a portion of its loans; slowing its lending activities; drawing on available loan facilities; liquidating proprietary investments and/or issuing common shares.

(d) Concentration risk

The majority of the Company's AUM, as well as its proprietary investments and loans receivables are focused on the natural resource sector.

## 14. SEGMENTED INFORMATION

For management purposes, the Company is organized into business units based on its products, services and geographical location and has five reportable segments as follows:

- SAM, which provides asset management services to the Company's branded funds and managed accounts;
- Global, which provides asset management services to the Company's branded funds and managed accounts in the U.S. and also provides securities trading services to its clients;
- Lending, which provides loans to companies in the mining and energy sectors;
- Consulting, which includes the operations of SC, Sprott Toscana and Sprott Korea, the consulting businesses of the Company; and
- Corporate and Other. The Corporate segment provides treasury and shared services to the Company's business units and includes the operating results of Sprott Inc. without the effect of consolidating certain subsidiaries. The Other segment includes the activities of SPW, the private wealth business of the Company.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on earnings before interest expense, income taxes, amortization and impairment of intangible assets and goodwill, gains and losses on proprietary investments (as if such gains and losses had not occurred), foreign exchange gains and losses, one time non-recurring expenses, non-cash and non-recurring stock-based compensation and performance fees and performance fee related expenses (adjusted base EBITDA).

Adjusted base EBITDA is not a measurement in accordance with IFRS and should not be considered as an alternative to net income or any other measure of performance under IFRS.

Transfer pricing between operating segments is performed on an arm's length basis in a manner similar to transactions with third parties.

The following tables present the operations of the Company's reportable segments ($ in thousands):

*For the year ended December 31, 2016*

| | SAM | Global | Lending | Consulting | Corporate and Other | Adjustments and Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Total revenue** | 108,777 | 18,092 | 19,804 | 5,717 | 16,969 | (2,172) | 167,187 |
| **Total expenses** | 83,641 | 16,517 | 6,313 | 6,450 | 18,595 | (2,172) | 129,344 |
| Pre-tax Income (loss) | 25,136 | 1,575 | 13,491 | (733) | (1,626) | — | 37,843 |
| Adjusted base EBITDA | 16,243 | 4,601 | 9,558 | (62) | (6,280) | — | 24,060 |

*For the year ended December 31, 2015*

| | SAM | Global | Lending | Consulting | Corporate and Other | Adjustments and Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Total revenue** | 72,395 | 9,282 | 25,562 | 6,348 | 14,263 | (1,843) | 126,007 |
| **Total expenses** | 64,328 | 44,912 | 12,878 | 22,784 | 13,926 | (1,843) | 156,985 |
| Pre-tax Income (loss) | 8,067 | (35,630) | 12,684 | (16,436) | 337 | — | (30,978) |
| Adjusted base EBITDA | 10,684 | 1,320 | 8,057 | 1,383 | (4,882) | — | 16,562 |

Inter-segment revenues and expenses are eliminated on consolidation and reflected in the Adjustments and Eliminations column.

For geographic reporting purposes, transactions are primarily recorded in the location that corresponds with the underlying subsidiary's country of domicile that generates the revenue. The following table presents the revenue of the Company by geographic location ($ in thousands):

| | For the years ended | |
|---|---|---|
| | Dec. 31, 2016 | Dec. 31, 2015 |
| Canada | 149,095 | 116,725 |
| United States | 18,092 | 9,282 |
| | 167,187 | 126,007 |

## 15. COMMITMENTS AND PROVISIONS

Besides the Company's long-term lease agreement, there may be commitments to provide loans arising from the Lending business or commitments to make investments in the proprietary investments portfolio of the Company. As at December 31, 2016, the Company had no loan commitments (December 31, 2015 - $29.3 million) and $35.5 million of investment purchase commitments in the proprietary investments portfolio (December 31, 2015 - $Nil).

Future minimum annual rental payments under non-cancellable leases, including operating costs, are as follows ($ thousands):

| | |
|---|---|
| 2017 | 4,429 |
| 2018 | 4,403 |
| 2019 | 4,427 |
| 2020 | 4,359 |
| 2021 | 4,163 |
| Thereafter | 7,180 |
| | 28,961 |

Contingent loss provisions are recorded when it is probable that the Company will incur a loss and the amount of the loss can be reasonably estimated. The Company makes provisions based on current information and the probable resolution of any such proceedings and claims. As at December 31, 2016, no provisions were recognized.

# CORPORATE INFORMATION

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Marc Faber, Director
Sharon Ranson, Director
Rosemary Zigrossi, Director
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**Stock Information**
Sprott Inc. common shares are traded on the Toronto Stock Exchange under the symbol "SII"

**Annual General Meeting**
Wednesday, May 10, 2017, 12:00 PM
Baker & McKenzie LLP
Brookfield Place, Bay/Wellington Tower
181 Bay Street, Suite 2100
Toronto, Ontario

SPROTT

www.sprottinc.com